INNOVATION

Tomorrow belongs to those who prepare for it today

Missouri State Employees' Retirement System • A Component Unit of the State of Missouri
Comprehensive Annual Financial Report • Fiscal Year Ended June 30, 2009

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INNOVATION





Gary Findlay • Executive Director | Gary Irwin • Chief Finance Officer

Missouri State Employees' Retirement System • A Component Unit of the State of Missouri
Comprehensive Annual Financial Report • Fiscal Year Ended June 30, 2010

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

ACTUARIAL SECTION

STATISTICAL SECTION

** Missouri State Employees' Plan*

Our Mission & Core Values

To exceed customer expectations by providing outstanding benefit services through professional plan administration and sound investment practices.

Quality

Strive to exceed the expectations of internal and external customers through innovation, competence, and teamwork. Seek to "do it right" the first time.

Respect

Be sensitive to the needs of others, both within and outside the organization. Be courteous, considerate, responsive, and professional.

Integrity

In all endeavors, act in an ethical, honest, and professional manner.

Openness

Be willing to listen to, and share information with, others. Be receptive to new ideas. Be trusting of others.

Accountability

Take ownership of and responsibility for actions and their results. Learn from mistakes. Control system risks and act to protect the security of member information and system assets.

INSPIRATION

During these difficult economic times, it is not surprising that we find ourselves thinking about the simpler times of the past as we struggle to make a better future. The concept of planning for retirement is timeless and essential for long-term success. MOSERS plans every day for the future of our members so they may enjoy life's simple pleasures in retirement.

Enjoy life's simple pleasures

INTRODUCTORY SECTION

PROFESSIONAL AWARDS

Certificate of Achievement for Excellence in Financial Reporting

MOSERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). This was the 21st consecutive year that MOSERS has received this prestigious award. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

Public Pension Standards Award

MOSERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2009, in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

LETTER OF TRANSMITTAL

MOSERS®
Missouri State Employees' Retirement System

Mailing Address
PO Box 209 • Jefferson City, MO 65102-0209

Building Location
907 Wildwood Drive • Jefferson City, MO

October 21, 2010

The Board of Trustees
Missouri State Employees' Retirement System
907 Wildwood Drive
Jefferson City, MO 65109

Dear Board Members:

It is my great pleasure to submit the 2010 Comprehensive Annual Financial Report (CAFR) of the Missouri State Employees' Retirement System (MOSERS). This report includes information regarding the activities of MOSERS during the past fiscal year providing evidence that MOSERS is accomplishing the mission of exceeding customer expectations by providing outstanding benefit services through professional plan administration and sound investment practices. While we have not recovered completely from the abysmal market conditions of FY09, very good progress was made towards recovery, providing evidence of the resiliency of the economy and the related ability of institutional investors to withstand major shocks.

Report Contents and Structure

This CAFR is designed to satisfy the reporting requirements of state law as stipulated in Sections 104.480, 104.1006, and 105.661 of the Revised Statutes of Missouri (RSMo), as amended. Management has prepared the basic financial statements of MOSERS and is responsible for the integrity and fairness of the information presented. Some amounts included in the financial statements and elsewhere may be based on estimates and judgments. These estimates and judgments were products of the best business practices available. The accounting policies followed in preparing the basic financial statements conform with U.S. generally accepted accounting principles. Financial information presented throughout the CAFR is consistent with that which is displayed in the basic financial statements.

Ultimate responsibility for the CAFR and the basic financial statements rests with the board of trustees. The executive director and the rest of MOSERS' staff assist the board members in fulfilling their responsibilities.

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Email: *mosers@mosers.org* • Website: *www.mosers.org*

Systems of internal controls and supporting procedures are maintained to provide assurances that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls include standards in the hiring and training of employees, the establishment of an organizational structure, and the communication of policies and guidelines throughout the organization. Internal controls are reviewed through internal audit programs and all internal audit reports are submitted to the board of trustees.

The system's external auditor, Williams-Keepers LLC, conducted an independent audit of the basic financial statements in accordance with U.S. generally accepted auditing standards. This audit is described in the *Independent Auditor's Report* on page 21 of the *Financial Section*. Management has provided the external auditors with full and unrestricted access to MOSERS' staff to discuss their audit and related findings to facilitate independent validation of the integrity of the plan's financial reporting and the adequacy of internal controls.

The *Financial Section* also contains *Management's Discussion and Analysis* that serves as a narrative introduction to and overview of the financial statements. MOSERS is considered a component unit of the state of Missouri for financial reporting purposes and, as such, the financial statements in this report are also included in the *State of Missouri's Comprehensive Annual Financial Report*.

Profile of MOSERS

MOSERS is an instrumentality of the state of Missouri that was established in 1957 by state law for the purpose of providing retirement benefits to most state employees. MOSERS provides for those retirement benefits through pension trust funds, in keeping with the fiduciary responsibilities of the board members and staff.

Subsequent to its creation, MOSERS was further assigned the task of providing most members of the retirement system with life and long-term disability insurance. MOSERS operates an internal service fund for the state of Missouri and contracts with insurance companies to provide those benefits through insured defined benefit plans. MOSERS maintains membership information on those eligible for the insurance coverage and collects and remits the premiums to the insurance company. Currently, the life and long-term disability insurance plans are insured through The Standard Insurance Company.

Effective September 1, 2007, a law change transferred responsibility for the administration of the Missouri State Employees' Deferred Compensation Program from the Missouri Deferred Compensation Commission to the MOSERS Board of Trustees. MOSERS provides investment options to participants who retain responsibility for the investment of their individual accounts. Currently, the Missouri State Employees' Deferred Compensation Program is administered by ING. MOSERS operates the deferred compensation program as an internal service fund.

On July 19, 2010, Governor Jay Nixon signed into law House Bill No. 1 that created a new tier defined benefit plan (MSEP 2011) for future state employees first hired on or after January 1, 2011. The MSEP 2011 defined benefit plan does not impact current members of MOSERS. Highlights of these changes can be found on page 31 in the *Notes to the Financial Statements*, and on page 128 of the *Actuarial Section*.

The MOSERS Board of Trustees annually approves the administrative expense budgets for MOSERS' operations and investment divisions. MOSERS' governance policy requires an exception report to the board of trustees by the executive director if expenses are expected to exceed budgeted amounts by 10% or if there are any unscheduled salary increases or staff expansions not included in the budget approved by the board before the beginning of the fiscal year. There were no budget exceptions to report for the year.

Succession Planning

Succession planning strategies were developed for FY10 with an emphasis on employee development and retention as well as ways in which institutional knowledge could be transferred. The operations succession planning program was initially implemented in July 2009. This program includes a selection process for high potential employees who are interested in preparing for higher level positions at MOSERS. Thirty-two percent of MOSERS' workforce is currently eligible to retire or will be eligible to retire in the next five years. The program is intended to capitalize on the experience our current staff already possesses and prepare them to move into higher level positions. The first group of succession planning participants has successfully completed the program. Based upon feedback, some changes were made to the curriculum to provide more planning and assignment review.

Staff Compensation and Benefits

Achievement of the MOSERS Performance Objectives is a critical part of the performance management process for the operations section. Staff is provided with quarterly updates that chart progress towards achieving these goals. This process includes departmental meetings during which employees can discuss progress and offer alternatives for improvements. It also serves as a reminder to staff of their individual responsibility in bringing our goals to fruition.

The board retained CBIZ to conduct a comprehensive compensation study to recommend how to transition staff from a pay plan that included incentive compensation to a pay plan that included base pay only and to ensure staff was paid appropriately compared to the market. The board's final decision for the operations staff was to add 90% of the average percentage earned incentive over the last three years to their base salary effective July 1, with no future opportunity for incentive compensation. The board's final decision for investment staff was to add 50% of the average percentage earned incentive over the last three years to their base salary also effective July 1, with a revised incentive compensation plan. Final incentive payments under the previous pay plan were issued to investment and operations employees on June 29, 2010.

With respect to investments, the board established an incentive compensation plan that mirrored the previous plan with the addition of a new hurdle regarding absolute performance. In order for incentives to be earned, the absolute return for the performance year must be at least zero. If the absolute return is greater than or equal to zero and is less than or equal to 8.5% for any year, the board will make a final decision regarding whether the incentive is fully earned for that year. If the absolute return is above 8.5%, any incentive earned using the relative performance hurdle is automatically determined to be earned without board approval. The board re-established the COLA that was previously in place for all staff.

In FY10, we participated in the NASRA/McLagen salary survey and the Human Resources Management Association of Greater Kansas City salary survey. We were able to incorporate the McLagan data into the CBIZ results. We will continue to participate in these surveys to monitor the adequacy of staff's pay.

Risk Management Enhancements

Risk management is a critical component of our investment management program. A report from Charlesworth & Associates, MOSERS' risk management consultant, shows that our insurance coverage "has been designed around the risks to which the system is exposed and the philosophy regarding funding of potential loss." Our risk management consultant helps us ensure that our coverage is consistent with industry standards and that we are receiving the best rates available. There were no asset protection exceptions to report for the year.

The Information Technology (IT) department designed and implemented a Visitor Management System, which automates the routine task of visitor sign-in and prints an ID badge that clearly identifies visitors and their reason for visiting. Beyond that, the system is integrated with our existing queue-management system which allows for easier management of member contacts and provides detailed, customizable reporting.

In January 2010, investment staff changed risk service providers by hiring Measurisk to replace DSTi. The primary purpose for this change was to gain greater transparency into hedge fund investments. The change has been successful with 100% of our hedge fund mangers providing either position level or exposure level detail on a monthly basis.

Deferred Compensation Plan Improvements

MOSERS is also responsible for oversight of the State of Missouri Deferred Compensation Plan which includes but is not limited to contracting with the record keeper and communications service provider and the investment managers as well as ensuring that the plan is in compliance with federal and state law. Plan participation is voluntary. As of June 30, 2010, there were 57,241 participants (39,898 active and 17,343 terminated/retired). Of those employees eligible, nearly 54.3% (includes college and university employees) participate in the plan. Plan assets total $1,358,201,254. ING is the plan record keeper. The plan consists of 13 custom-designed target date investment options, a stable income fund, a brokerage window option, and 30 closed legacy mutual fund options (consisting of a variety of domestic equity, international equity, fixed income, and lifestyle/balanced mutual funds).

Due to declining revenues, the state's incentive (match) was suspended beginning with the March 31, 2010 payroll and was not appropriated for FY11. Since the announcement was first made in February, 1,129 current participants stopped contributing to the deferred compensation plan and 675 participants decreased their contributions. New plan enrollments since the match suspension announcement in March are down 65% with some of that likely attributable to 22% fewer new hires by the state, colleges, and universities compared to the same period last year. The current plan participation rate (currently 54.3%), is down 1% since June 30, 2009. Total participants have decreased by 404 since this time last year. There were 1,270 participants that slightly increased their contribution during this period.

The board also has responsibility for oversight of a 401(a) defined contribution plan for education employees hired after June 30, 2002, by the regional colleges and universities that participate in MOSERS. The employer contribution rate is 1% of payroll less than the normal cost of the defined benefit plan for general state employees. TIAA-CREF is responsible for administration and for providing investment products. Current plan assets total $21,548,919 with 1,592 participants.

In November 2009, a new Missouri Deferred Compensation Plan website (*www.modeferredcomp.org)* was launched. This is a gateway website for current and prospective plan participants that organizes and presents deferred compensation information in a timely and concise fashion, while also displaying user-friendly navigation features for enrolling in the plan, accessing personal account information, and fund performance. The website also offers an updated look and access to important plan news and updates. It provides current plan information, performance data, calculators and educational resource tools.

A new target date fund microsite was also developed which provides a comprehensive explanation of the custom target date funds managed by Alliance Bernstein. This site is accessible through the fund information section at *www.modeferredcomp.org* or directly at *www.alliancebernstein.com/mosers*.

Web Enhancements

A year after launching the new MOSERS website, the website design and development team focused on enhancing the online user experience by launching features including a new register and forgot password program, online chat, and a redesigned home page carousel. IT improved security for the member website in connection with adding self-service features that allow members to enroll and manage future password changes and/or resets without any interaction from MOSERS' staff. Security questions were added to help us verify identity, and the login process will also prompt members to verify email addresses every six months. This allows us to keep our records up-to-date and ensures that we are communicating via a current email address.

Technology Updates

We have implemented a new employment applicant tracking system this year which includes an online application. This system has saved significant staff time in terms of recording, tracking, and notifying applicants.

Members can now have payments for their life insurance and long-term disability insurance (LTD) automatically deducted from their bank accounts through MOSERS direct pay program, saving the costs associated with handling paper check deposits. Staff also transitioned our LTD claims to an electronic process (from the retirement system to the insurance company) that allows for overnight submission resulting in faster claim service, reduced mailing costs, and reduced staff time.

IT installed a Storage Area Network (SAN). This is conceptually similar to the virtual server environment. It consolidates the actual disk space that is utilized by the network servers which improves efficiency and flexibility by pooling this key resource. It allows us to dynamically add and/or allocate space to specific servers on an as-needed basis.

Cost Effectiveness Measurement

Cost Effectiveness Measurement Benchmarking, Inc. (CEM) measures the cost of service on an annual per participant basis (including active members and benefit recipients). We have 87,000 participants while the median number within our peer group is fairly close at 90,000. Our cost of $70 per active member and annuitant was well below the median of $75 within our peer group. Our overall complexity score remains below the peer average. In addition, MOSERS' service ranked number one again in both our peer group and in CEM's entire universe. We received a score of 90 relative to median scores of 77 and 76 for our peer group and CEM's total universe, respectively.

In an effort to keep costs down and enhance our processing time, we implemented changes that simplify processes, eliminate programs, and/or provide enhanced security. These changes include improving our members' online experience through an online document repository which serves as a secure document exchange that will significantly reduce printing and mailing costs when fully operational. Since inception, our participation rate for active employees is over 80% and for retirees is nearly 36%. For both groups, our participation rate is realizing modest increases each quarter. Savings attributable to this initiative so far are in excess of $200,000 and expected to grow materially as we incorporate other mailings including individual responses to member inquiries.

Staff also created an electronic report to add to the secure portion of the employer website that allows employers to see if any of their employees do not have an email address on file with MOSERS. This report has allowed us to capture many additional member email addresses.

Summary of Financial Information

The following schedule is a comparative summary of the pension trust funds' additions and deductions for the years ended June 30, 2010, and June 30, 2009.

	Pension Trust Funds	
	Year Ended June 30, 2010	Year Ended June 30, 2009
Additions	$ 1,152,297,853	$ (1,240,503,569)
Deductions	(575,126,868)	(541,861,599)
Net change	$ 577,170,985	$ (1,782,365,168)

The following schedule is a comparative summary of the revenues and expenses of the Internal Service Funds (insurance and deferred compensation activity) for the years ended June 30, 2010, and June 30, 2009.

	Internal Service Funds	
	Year Ended June 30, 2010	Year Ended June 30, 2009
Operating revenues	$ 99,281,435	$ 105,678,484
Operating expenses	(99,039,086)	(105,492,856)
Nonoperating revenue	9,816	20,755
Net change	$ 252,165	$ 206,383

Additional financial information can be found in the *Management Discussion and Analysis Report*, the Financial Statements, and schedules included in the *Financial Section* of this report.

Investments

MOSERS' investments generated a return of 14.3% (net of fees) for FY10. The total fund return exceeded its policy benchmark of 13.4%. For the tenth straight year, MOSERS' investments have generated returns in excess of our benchmark and have done so with less volatility. The incremental return (actual return vs. policy benchmark) resulted in an additional $49 million for the fund this year.

Performance across asset classes varied during the year with emerging market equities generating some of the highest returns within the portfolio overall. The public equity portfolio returns were 14.3%, the public debt portfolio returns were 14.8%, and the alternatives portfolio produced results of 11.8%. Additional information regarding the financial condition of the pension trust funds can be found in the *Investment Section* of this report.

Plan's Financial Condition

The funding objective of MOSERS' pension trust funds is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on pages 47-52. During the year ended June 30, 2010, the funded ratio of the Missouri State Employees' Plan, which covers 104,128 participants, decreased from 83% to 80.4%, primarily as the result of the previous years' unfavorable investment experience. Funding of the Judicial Plan, which covers 909 participants, began on July 1, 1998. During the year ended June 30, 2010, the funded ratio of the Judicial Plan increased from 22% to 23.3%, primarily as the result of the smaller accumulation of assets exposed to last year's market losses and the expectation that the funded ratio will increase 2-3% per year under normal circumstances. Additional information regarding the financial condition of the pension trust funds can be found in the *Actuarial Section* of this report.

Awards

MOSERS was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). This was the 21st consecutive year that MOSERS has received this prestigious award. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

MOSERS received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award, in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

Institutional Investor magazine named MOSERS' chief investment officer, Rick Dahl, Small Public Fund Manager of the Year in the Institutional Investor Award category. This award recognizes U.S. institutional investors whose innovative strategies and fiduciary savvy resulted in impressive returns over the past year, as well as U.S. money managers in 20 asset classes and strategies who stood out in the eyes of the investment community for their exceptional performance, risk management, and service.

Also this fiscal year, the MOSERS website design and development team received an Award of Excellence from the National Association of Government Communicators (NAGC) for the complete redesign of the website. The MOSERS website was one of five finalists considered for an award in the Website II category at NAGC's annual Blue Pencil & Gold Screen Awards competition, which salutes superior communications efforts of government agencies and recognizes the people that create them. In addition, the communication and investment teams also received a second place award from NAGC for the rebranding of the Missouri Deferred Compensation Plan's communication materials.

These awards are gratifying to MOSERS' staff and increase MOSERS' stature as a leader among our peers.

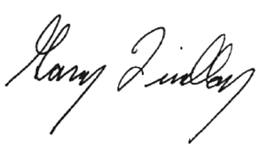
Conclusion

This report is a product of the combined efforts of MOSERS' staff and advisors functioning under your leadership. It is intended to provide complete and reliable information that will facilitate the management decision making process, serve as a means for determining compliance with legal requirements, and allow for the evaluation of responsible stewardship of the system funds. As in the past, MOSERS received an unqualified opinion from our independent auditor on the financial statements included in this report. The opinion of the independent auditor can be found on page 21.

Copies of this report are provided to the Governor, State Auditor, the Joint Committee on Public Employee Retirement of the General Assembly, and all state agencies that form the link between MOSERS and its members. Their cooperation contributes significantly to the success of MOSERS. We hope all recipients of this report find it informative and useful.

I would like to take this opportunity to express my gratitude to you, the staff, the advisors, and other people who have worked so diligently to assure the continued successful operation of the system.

Respectfully submitted,



Gary Findlay
Executive Director

LETTER FROM THE BOARD CHAIR

MOSERS®
Missouri State Employees' Retirement System

Mailing Address
PO Box 209 • Jefferson City, MO 65102-0209

Building Location
907 Wildwood Drive • Jefferson City, MO

October 21, 2010

Dear Members:

On behalf of the board of trustees, I am pleased to present the MOSERS *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2010. This report provides information on the financial status of your retirement system while also highlighting changes that occurred during the year. The accounting portion of this report is prepared following all appropriate accounting principles and is appropriately attested to by the system's certified public accountants.

The board is pleased to report that MOSERS investments generated a return of 14.3% (net of fees) this fiscal year. This excellent return exceeded the policy established benchmark of 13.4% by 0.9% and the actuarial investment return assumption of 8.5% by 5.8%. This higher return added value to your retirement fund.

However, long-term performance is the best indicator of success. For the tenth straight year, MOSERS' investments have generated returns in excess of the established policy benchmark and have done so with less volatility than the benchmark. The incremental reward from these results over ten years has been $1.6 billion in investment earnings for your retirement fund. In addition, for the 15-year period ended June 30, 2010, MOSERS' total fund return outperformed 95% of the public pension funds in the Rogerscasey universe of public pension plans with assets in excess of $1 billion.

Your retirement system continues to achieve high marks in the delivery of customer service to our members. One of the ways operational performance is measured is through CEM Benchmarking Inc.'s Pension Administration Benchmarking Analysis. This year CEM evaluated 73 leading pension systems, including systems in the U.S., Canada, Australia, the Netherlands and Denmark, and identified 13 U.S. public pension plans as the most relevant peer group based upon membership size and system assets. The CEM survey rated MOSERS' service delivery as the highest in our peer group with lower than median cost – the fifth time the system has received such a rating during an eleven-year period. In addition, for the third consecutive year, MOSERS received the highest overall service delivery rating in the entire CEM universe. The system is continually working on improvements in service delivery.

In closing, I wish to thank all of the other ten MOSERS board members for their hard work and contributions to the system this year. All trustees serve many hours with great personal sacrifice for no remuneration. My personal belief is that the wide diversity and exceptional knowledge that this board brings to each board meeting is the reason for our system's continued success.

Additionally, the board of trustees thanks the MOSERS staff who strives continually to provide the expertise and professionalism required for excellence in our retirement system. This staff continues to maintain a high level of commitment to serving our membership. Both the board and staff look forward to meeting your future needs. If you have any questions regarding this report or any other aspect of MOSERS, please contact us at MOSERS, P.O. Box 209, Jefferson City, MO 65102 or call 1-800-827-1063. You may also visit our website at *www.mosers.org*.

Sincerely,

Donald Martin

Donald Martin, Chair
Board of Trustees

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Email: *mosers@mosers.org* • Website: *www.mosers.org*

BOARD OF TRUSTEES

Donald Martin - Chair
Elected Retired Member

Bob Patterson - Vice Chair
Elected Active Member

Wayne Bill
Elected Active Member

Senator Jason Crowell
Senate Appointed Member

Representative Bill Deeken
House Appointed Member

Representative Ward Franz
House Appointed Member

Senator Timothy Green
Senate Appointed Member

Travis Morrison
Governor Appointed Member

Commissioner of Administration
Kelvin Simmons
Ex-Officio Member

David Steelman
Governor Appointed Member

State Treasurer
Clint Zweifel
Ex-Officio Member

ADMINISTRATIVE ORGANIZATION

Gary Findlay - *Executive Director*

Greg Beck - *Chief Auditor*
Judy Delaney - *Legislative & Policy Coordinator*
Jake McMahon - *Chief Counsel*
Lisa Verslues - *Human Resources Coordinator*

Karen Stohlgren - *Deputy Executive Director*
Chief Operations Officer (COO)

Stacy Gillmore - *Manager of Information Technology*
Gary Irwin - *Chief Finance Officer*
Lori Leeper - *Operations Project Coordinator/Board Secretary*
JoAnn Looten - *Manager of Records & Facility*
Krista Myer - *Manager of Communications*
Scott Simon - *Manager of Benefit Services*

Rick Dahl - *Deputy Executive Director*
Chief Investment Officer (CIO)

Shannon Davidson - *Manager of Investment Risk & Performance*
Seth Kelly - *Manager of Investment Research & Strategy*
Jim Mullen - *Manager of Public Debt*
Pat Neylon - *Manager of Public Equity*
Scott Peppard - *Manager of Alternative Investments*
Christine Rackers - *Manager of Investment Policy & Communications*
Cindy Rehmeier - *Manager of Deferred Compensation*
Tricia Scrivner - *Manager of Hedge Fund Investments*

ABOUT MOSERS

Purpose

MOSERS was established September 1, 1957, and is governed by laws of the state of Missouri.

MOSERS provides retirement, survivor, and disability benefits, as well as life insurance and deferred compensation plan management to its members.

MOSERS administers retirement benefits for most state employees, including members of the Missouri General Assembly, elected state officials, and judges. MOSERS is responsible for administering the law in accordance with the expressed intent of the Missouri General Assembly and bears a fiduciary obligation to the state employees who are its members and beneficiaries.

Administration

State law provides that responsibility for the administration of MOSERS is vested in an 11-member board of trustees. The board is comprised of:

- Two members of the Senate appointed by the President Pro Tem of the Senate.
- Two members of the House of Representatives appointed by the Speaker of the House.
- Two members appointed by the Governor.
- The State Treasurer.
- The Commissioner of Administration.
- Three other system members: two active members elected by the active and terminated-vested members, and one retiree elected by the retired members.

The day-to-day management of MOSERS is delegated to the executive director who is appointed by the board and serves at its pleasure. The executive director acts as advisor to the board on all matters pertaining to the system, contracts for professional services, and employs the remaining staff needed to manage the system.

Organization

The executive director, COO, and CIO are responsible for planning, organizing, and administering the operations of the system under the broad policy guidance and direction of the board. MOSERS' office is divided into eight administrative sections that perform specific functions for the system.

Executive Services

The executive services team provides administrative support by assisting the executive director, COO, and CIO in the major legal, operational, and oversight functions of the retirement, benefit, and communication programs.

Accounting

Accounting is responsible for all financial records of the programs administered by MOSERS, including the preparation of financial and statistical reports. Accounting performs the purchasing functions for MOSERS and interfaces with the investment custodian, Office of Administration accounting, various payroll and personnel departments, life insurance companies, actuaries, banks, and the IRS on all accounting-related issues.

Benefit Services

Benefit services is responsible for contact with the members regarding the benefit programs directly administered by MOSERS, which include retirement, life insurance, and long-term disability.

Communications

Communications is responsible for providing clearly written and attractively designed publications, and conducting educational seminars to inform members about benefit programs administered by MOSERS. Communications and the information technology section are jointly responsible for MOSERS' website.

Information Technology

Information technology is responsible for establishing and maintaining the automated systems that support MOSERS' daily operations. MOSERS takes full advantage of technology to automate and integrate almost every aspect of the business. Key technologies include a document imaging system, a custom-built benefits management system and a computer-based telephone system.

Investments

The primary function of the investment department is to provide internal investment management and consulting services to the board and the executive director. Other functions include hiring and terminating external investment managers, making strategic allocation decisions, analyzing the overall asset allocation, rebalancing the portfolio, and informing and advising the board and executive director on financial and economic developments which may affect the system. The investment staff also works with the asset consultant and the executive director in selecting and monitoring external money managers. Information regarding the investment professional service providers can be found in the *Investment Section*.

Records and Facility Management

Records and facility management is responsible for establishing and maintaining all membership records including maintenance of the data on the electronic imaging system, balancing payroll deductions for insurance, and entering the payroll, service, and leave data into the system's retirement database. This section is also responsible for mail services and general building maintenance.

Executive Support Staff

Executive support staff provides clerical support services.

OUTSIDE PROFESSIONAL SERVICES

Actuary

- Gabriel, Roeder, Smith & Co.

Auditor

- Williams-Keepers, LLC

Governmental Consultants

- Gamble & Schlemeier, LTD
- West Consulting, Inc.

Legal Counsel

- Steptoe & Johnson, LLP
- Thompson Coburn, LLP

Master Custodian

- Bank of New York Mellon

Investment Management Consultants

- Blackstone Alternative Asset Management, LP
  Hedge Fund Asset Consultant
- Summit Strategies Group
  General Asset Consultant
- TimberLink, LLC
  Timberland Consultant

Risk Management Consultant

- Charlesworth & Associates, LC

Third-Party Administrators

- ING
  Deferred Compensation Plan
- The Standard Insurance Company
  Disability and Life Insurance
- TIAA-CREF
  College & University Retirement Plan

Securities Lending Advisors

- Deutsche Bank AG, New York Branch
- Credit Suisse AG, New York Branch

Investment Advisors

- Actis Capital, LLP
- Alinda Capital Partners, LLC
- Alliance Bernstein Defined Contribution Investments
- AQR Capital Management, LLC
- Axiom Asia Private Capital
- Barclays Global Investors, NA
- Baillie Gifford International, LLC
- Bayview Asset Management, LLC
- BlackRock Financial Management, Inc.
- Blackstone Alternative Asset Management, LP
- Blackstone Distressed Securities Advisors, LP
- Blackstone Real Estate Advisors
- Blakeney Management
- Brevan Howard Capital Management Limited
- Bridgepoint Capital Limited
- Bridgewater Associates, LP
- CarVal Investors, LLC
- Catterton Partners
- Claren Road Asset Management, LLC
- Davidson Kempner Capital Management, LLC
- DDJ Capital Management, LLC
- Development Partners International
- DG Capital Management
- Diamondback Capital Management, LLC
- DRI Capital, Inc.
- Elliott International Capital Advisors, Inc.
- Eminence Capital
- Eton Park Capital Management, LP
- Farallon Capital Management, LLC
- Fortress Investment Group, LLC
- GFI Energy Ventures, LLC
- Global Forest Partners, LP
- Grantham, Mayo, Van Otterloo & Co., LLC
- Harvest Fund Advisors, LLC
- HBK Investments, LP
- Highside Capital Management, LP
- JLL Partners
- King Street Capital Management, LP
- Legg Mason Capital Management, Inc.

Continued on page 20

OUTSIDE PROFESSIONAL SERVICES

Continued from page 19

- Leuthold Weeden Capital Management
- Linden Capital Partners, LLC
- Mastholm Asset Management, LLC
- Merit Energy Company
- MHR Fund Management, LLC
- Millennium Technology Ventures, LP
- Moon Capital Management, LP
- Morant Wright Management Limited
- New Mountain Capital, LLC
- Nippon Value Investors
- NISA Investment Advisors, LLC
- Oaktree Capital Management, LP (OCM)
- Pacific Alternative Asset Management Company, LLC (PAAMCO)
- Parish Capital Advisors, LLP
- Perry Corp.
- Resource Management Service, LLC
- Silchester International Investors
- Silver Creek Capital Management, LLC
- Silver Lake Partners
- Silver Point Capital, LP
- The Campbell Group, LLC
- TPG-Axon Capital Management, LP
- Trust Company of the West (TCW)
- Veritas Capital Fund Management, LLC
- Viking Global Investors, LP
- Wellington Management Company, LLP

MOTIVATION

Retirement is not just an event; it is an achievement, a milestone and a new beginning. Though ideas about retirement continue to change, the big picture stays the same. MOSERS remains well funded and focused on keeping promised benefits secure.

Focus on the timeless value of retirement

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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The Board of Trustees
Missouri State Employees' Retirement System

We have audited the accompanying basic financial statements of the Missouri State Employees' Retirement System (MOSERS), a component unit of the state of Missouri, as of and for the year ended June 30, 2010, as listed in the accompanying table of contents. We have also audited the financial statements of MOSERS' internal service funds as of and for the year ended June 30, 2010, as displayed in MOSERS' basic financial statements. These financial statements are the responsibility of MOSERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MOSERS, as well as MOSERS' internal service funds, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management discussion and analysis and the schedules of funding progress and employer contributions as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information for the years ended June 30, 2010, 2009, 2008, 2007, and 2006. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of MOSERS. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The *Introductory, Investment, Actuarial, and Statistical Sections* have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams Keepers LLC

October 21, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

The basic financial statements contained in this section of the *Comprehensive Annual Financial Report* consist of:

The ***Statements of Plan Net Assets*** which report the pension trust funds assets, liabilities, and resulting net assets where Assets – Liabilities = Net Assets available at the end of the fiscal year. It is a snapshot of the financial position of the pension trust funds at that specific point in time.

The ***Statements of Changes in Plan Net Assets*** which summarize the pension trust funds' financial transactions that have occurred during the fiscal year where Additions – Deductions = Net Change in Net Assets. It supports the change that has occurred to the prior year's net asset value on the *Statements of Plan Net Assets*.

The ***Balance Sheet*** of the internal service funds is similar to the *Statements of Plan Net Assets* in that it is also a snapshot of the financial position of the internal service funds where Net Assets + Liabilities = Assets.

The ***Statements of Revenues, Expenses, and Changes in Net Assets*** of the internal service funds is similar to the *Statements of Changes in Plan Net Assets* in that it also reports a summary of the financial activity that occurred over the period of the fiscal year where Revenues – Expenses = Net Revenue and supports the change to the prior year's net assets.

The ***Statements of Cash Flows*** of the internal service funds reports the financial transactions of the fiscal year of the internal service funds on a cash basis. It is similar to the *Statements of Revenues, Expenses and Changes in Net Assets*; however, the focus of this statement is on the change to cash balances with accrued income and expense items eliminated.

The ***Notes to the Financial Statements*** are an integral part of the above financial statements and include additional information not readily evident in the statements themselves.

The required supplementary *Management Discussion and Analysis* information and the *Required Supplementary Information* and *Additional Financial Information* following the *Notes to the Financial Statements* provide detailed historical information considered useful in evaluating the condition of the plans administered by MOSERS.

Pages 23-26 contain summary comparative statements of MOSERS' pension trust funds and internal service funds and provide additional analysis of the changes noted on those schedules.

MOSERS' overall pension fund financial condition improved during the fiscal year ended June 30, 2010. Pension fund net assets increased by $577,170,985 during the fiscal year, primarily as result of an increase in investment values and their associated income. The investments of the pension trust funds generated a 14.3% return for the year, up from the prior year's return of -19.1%. The MSEP plan experienced a decrease in its funded status from 83% to 80.4% and the Judicial Plan experienced an increase in its funded status from 22% to 23.3%. The temporary change in the valuation asset market corridor adopted by the MOSERS Board of Trustees in 2009 goes to +/- 25% through June 30, 2010. This was done to reflect the unusual market condition experienced over the last two fiscal years. The corridor is scheduled to return to +/- 20% in FY11.

The internal service funds net assets increased by $252,165. The goals of the internal service funds are to maintain the funds at a level that enables it to meet its obligations of contracting the premiums for the life and long-term disability insurance benefits for state employees; maintain the membership data necessary to track the premiums due from the state and its employees and payable to the insurance carrier; manage the state employees deferred compensation program; and collect and remit the state and employee contributions to the deferred compensation plan administrator.

The following schedules present summary comparative financial statements of the pension trust funds and internal service funds for FY10 and FY09. For each schedule there is a brief summary of the significant changes noted in those schedules.

Pension Trust Funds

Summary Comparative Statements of Plan Net Assets Analysis

The largest components of the net assets of the pension trust funds are the investments, cash and short-term investments, and securities lending collateral.

The increase in the fair value of investments is primarily attributable to the favorable market conditions experienced during FY10, as evidenced by an increase in MOSERS' total investment return from -19.1% last year to 14.3% this year. During the fiscal year ended June 30, 2010, MOSERS was properly positioned to take advantage of the market rebound that occurred during the first three quarters of the fiscal year and provided significant downside protection during the last quarter. Detailed information regarding MOSERS' investment portfolio is included in the *Investment Section* of this report.

The decrease in securities lending collateral is primarily attributable to MOSERS' decision to reduce the size of the lending portfolio in an effort to reduce the risk exposure in this area. Lending margins were also narrower during the fiscal year making it less attractive to loan securities. As of the fiscal year-end, approximately 35% of the collateral received has been invested in asset-backed and corporate bonds. The value of the invested collateral has declined below the level of the liability MOSERS has incurred from the securities lending program. If all the loans were terminated on June 30, 2010, MOSERS would have had to make up the $9.7 million difference between the invested collateral of $192.6 million and the collateral liability of $202.3 million.

Cash and short-term investments were up slightly, partly as a result of increased investing activity during the year.

Summary Comparative Statements of Plan Net Assets

Pension Trust Funds

	As of June 30, 2010	As of June 30, 2009	Amount of Change	Percentage Change
Cash and short-term investments	$ 630,869,896	$ 624,390,801	$ 6,479,095	1.04%
Receivables	45,578,213	50,537,236	(4,959,023)	(9.81)
Investments	6,199,292,141	5,644,811,509	554,480,632	9.82
Invested securities lending collateral	192,640,173	385,276,913	(192,636,740)	(50.00)
Capital assets	3,190,347	3,313,056	(122,709)	(3.70)
Other assets	50,312	85,515	(35,203)	(41.17)
Total assets	7,071,621,082	6,708,415,030	363,206,052	5.41
Administrative expense payables	2,204,046	1,606,040	598,006	37.23
Investment purchase payables	23,438,954	23,837,745	(398,791)	(1.67)
Investment income payables	25,586,275	0	25,586,275	100.00
Securities lending collateral	202,323,418	441,487,337	(239,163,919)	(54.17)
Other liabilities	11,891,157	12,477,661	(586,504)	(4.70)
Total liabilities	265,443,850	479,408,783	(213,964,933)	(44.63)
Net assets	$6,806,177,232	$ 6,229,006,247	$ 577,170,985	9.27

Summary Comparative Statements of Changes in Plan Net Assets Analysis

The slight decrease in contributions received is primarily attributable to a decrease in state payroll for the year.

The increase in investment income in FY10 over FY09 is attributable to the generally favorable market conditions experienced by the investments of the fund. The decrease in securities lending income is primarily attributed to a decrease in demand for lendable securities and an intentional effort to reduce MOSERS' risk exposure in the securities lending arena. Additional information regarding the investments and securities lending activity can be found in the *Investment Section* of this report.

The total benefit payments increase is due to a net increase in the number of benefit recipients plus cost-of-living adjustments provided to existing benefit recipients. Detailed schedules of these changes can be found on pages 112-117 of the *Actuarial Section* of this report.

Service transfers are dependent on the number of members electing to transfer their service out of MOSERS and the cost of that service transferred. Refunds are dependent on the number of members MOSERS is able to locate who have contributions remaining in the system. During FY10, there were 69 members electing to transfer their service out of MOSERS and one member was located who had contributions remaining in the system.

Internal Service Funds

Summary Comparative Balance Sheets Analysis

The decrease in premiums receivable is attributable to normal fluctuations in the month end balance of life and long-term disability insurance premiums receivable during the year, which are dependent on the number of members participating and amount of their coverage.

The accounts receivable-other increase is due to increased receipts received in conjunction with the revenue sharing arrangement with the deferred compensation plan administrator. To cover the administration costs of the program, each quarter MOSERS receives a flat amount of $25,000 plus, beginning in 2009, 0.07% annualized of the ING Stable Income Fund. The fourth quarter ING Stable Income Fund revenue sharing payment of $129,521 remained receivable at fiscal year-end.

The increase in investments is attributable to normal fluctuations in the investment in overnight repurchase agreements of the funds held pending transmission to the life and long-term disability insurance company and to the deferred compensation administrator.

The increase in premiums payable is attributable to normal fluctuations in the month end balances of premiums payable for the year, similar to the fluctuations of the premiums receivable.

Other liabilities increased primarily as a result of the increase in reimbursements due to the pension trust funds for the internal service fund's portion of shared expenses which had not been transferred at year-end.

Summary Comparative Statements of Revenues, Expenses, and Changes in Net Assets Analysis

Premium receipts and premium disbursements increased slightly due to normal fluctuations in the amount of optional life insurance coverage selected by state employees.

The decrease in deferred compensation receipts and disbursements is primarily attributable to a decreased number in the workforce contributing to the plan as well as the discontinuation of the employer incentive match in March 2010.

Miscellaneous income increased as a result of higher receipts from the revenue sharing arrangement with the deferred compensation plan administrator.

Premium refunds decreased slightly as a result of a decrease in the amount of payroll processing errors by state entities.

Administrative expenses decreased primarily as a result of expenses for improvements made in 2009 to the state's deferred compensation plan that were implemented prior to 2010.

Investment income decreased primarily due to an overall decrease in the 90-day treasury bill rates during the fiscal year.

Summary Comparative Statements of Changes in Plan Net Assets

Pension Trust Funds

	Year Ended June 30, 2010	Year Ended June 30, 2009	Amount of Change	Percentage Change
Contributions	$ 281,842,348	$ 283,094,964	$ (1,252,616)	(0.44)%
Investment income (loss) - investing activities	868,603,852	(1,530,053,487)	2,398,657,339	156.77
Investment income - securities lending activities	1,204,378	5,829,390	(4,625,012)	(79.34)
Miscellaneous income	647,275	625,564	21,711	3.47
Total additions (reductions)	1,152,297,853	(1,240,503,569)	2,392,801,422	192.89
Benefits	567,514,834	534,698,643	32,816,191	6.14
Service transfers and refunds	466,076	0	466,076	100.00
Administrative expenses	7,145,958	7,162,956	(16,998)	(0.24)
Total deductions	575,126,868	541,861,599	33,265,269	6.14
Net increase (decrease)	577,170,985	(1,782,365,168)	2,359,536,153	132.38
Net assets beginning of year	6,229,006,247	8,011,371,415	(1,782,365,168)	(22.25)
Net assets end of year	$6,806,177,232	$ 6,229,006,247	$ 577,170,985	9.27

Summary Comparative Balance Sheets

Internal Service Funds

	As of June 30, 2010	As of June 30, 2009	Amount of Change	Percentage Change
Cash	$ 8	$ 0	$ 8	100.00%
Premiums receivable	1,013,226	1,033,692	(20,466)	(1.98)
Accounts receivable - other	129,521	124,488	5,033	4.04
Investments	3,103,073	2,642,046	461,027	17.45
Total assets	4,245,828	3,800,226	445,602	11.73
Premiums payable	2,999,451	2,878,996	120,455	4.18
Deferred compensation contributions payable	55,327	0	55,327	100.00
Other liabilities	406,780	389,125	17,655	4.54
Total liabilities	3,461,558	3,268,121	193,437	5.92
Unrestricted net assets	784,270	532,105	252,165	47.39
Total liabilities and net assets	$4,245,828	$3,800,226	$445,602	11.73

Summary Comparative Statements of Revenues, Expenses, and Changes in Net Assets

Internal Service Funds

	Year Ended June 30, 2010	Year Ended June 30, 2009	Amount of Change	Percentage Change
Premium receipts	$29,098,799	$ 28,990,057	$ 108,742	0.38%
Deferred compensation receipts	69,143,267	75,661,047	(6,517,780)	(8.61)
Miscellaneous income	1,039,369	1,027,380	11,989	1.17
Total operating revenue	99,281,435	105,678,484	(6,397,049)	(6.05)
Premium disbursements	29,077,825	28,968,981	108,844	0.38
Deferred compensation disbursements	69,143,267	75,683,218	(6,539,951)	(8.64)
Premium refunds	20,974	21,076	(102)	(0.48)
Administrative expenses	797,020	819,581	(22,561)	(2.75)
Total operating expenses	99,039,086	105,492,856	(6,453,770)	(6.12)
Net operating income	242,349	185,628	56,721	30.56
Investment income	9,816	20,755	(10,939)	(52.71)
Net revenues over expenses	252,165	206,383	45,782	22.18
Net assets beginning of year	532,105	325,722	206,383	63.36
Net assets end of year	$ 784,270	$ 532,105	$ 252,165	47.39

Summary Comparative Statements of Cash Flows Analysis

The increase in cash flows from operating activities is primarily attributable to an increase in cash payments received from employers and members over that of FY09.

The decrease in cash flows from noncapital financing activities is primarily attributable to a decrease in the amount of life and long-term disability premium refund checks that remained outstanding at year-end.

The decrease in cash flows from investing activities is primarily attributable to a decrease in the cash flows from net purchase and maturities of overnight repurchase agreements of $162,975 and a decrease in the investment income received of $10,939.

Request for Information

This financial report is designed to provide a general overview of the system's finances for all those with interest in the system. Questions concerning any of the information provided in this report or request for additional information should be addressed to MOSERS at P.O. Box 209, Jefferson City, MO 65102.

Summary Comparative Statements of Cash Flows

Internal Service Funds

	Year Ended June 30, 2010	Year Ended June 30, 2009	Amount of Change	Percentage Change
Cash flows from operating activities	$ 452,171	$ 274,449	$ 177,722	64.76%
Cash flows from noncapital financing activities	(952)	2,810	(3,762)	(133.88)
Cash flows from investing activities	(451,211)	(277,297)	(173,914)	62.72
Net change in cash	8	(38)	46	
Cash balances beginning of year	0	38	(38)	
Cash balances end of year	$ 8	$ 0	$ 8	

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

PENSION TRUST FUNDS – AS OF JUNE 30, 2010

	MSEP	Judicial Plan	Total
Assets			
Cash and short-term investments	$ 623,682,400	$ 7,187,496	$ 630,869,896
Receivables			
State contributions	9,713,222	1,134,742	10,847,964
Investment sales	33,939,188	391,125	34,330,313
Other	395,380	4,556	399,936
Total receivables	44,047,790	1,530,423	45,578,213
Investments at fair value			
U.S. treasury securities	829,231,688	9,556,305	838,787,993
Corporate bonds	122,030,335	1,406,313	123,436,648
Convertible bonds	3,195,889	36,830	3,232,719
Government bonds & gov't mortgage-backed securities	37,326,911	430,166	37,757,077
Common stock	830,134,113	9,566,705	839,700,818
Preferred stock	7,871,437	90,713	7,962,150
Limited partnerships	3,282,145,346	37,824,391	3,319,969,737
Bank loans	86,274,717	994,255	87,268,972
Collateralized mortgage obligations	105,110,684	1,211,326	106,322,010
Foreign currency	4,004,587	46,150	4,050,737
International equities	808,709,811	9,319,805	818,029,616
U.S. dollar-denominated international corporate bonds	12,628,134	145,530	12,773,664
Total investments	6,128,663,652	70,628,489	6,199,292,141
Invested securities lending collateral	190,445,425	2,194,748	192,640,173
Capital assets			
Land	264,241	3,045	267,286
Building and building improvements	3,512,405	40,478	3,552,883
Furniture, fixtures, and equipment	1,804,429	20,795	1,825,224
Total capital assets	5,581,075	64,318	5,645,393
Accumulated depreciation	(2,427,076)	(27,970)	(2,455,046)
Net capital assets	3,153,999	36,348	3,190,347
Prepaid expenses and other	49,739	573	50,312
Total assets	6,990,043,005	81,578,077	7,071,621,082
Liabilities			
Administrative expense payables	2,178,935	25,111	2,204,046
Investment purchases payables	23,171,914	267,040	23,438,954
Securities lending collateral	200,018,349	2,305,069	202,323,418
Investment incentive fees payable	11,236,944	129,498	11,366,442
Investment income payable	25,294,771	291,504	25,586,275
Employee vacation and overtime liability	518,737	5,978	524,715
Total liabilities	262,419,650	3,024,200	265,443,850
Net assets held in trust for pension benefits	$6,727,623,355	$78,553,877	$6,806,177,232

See accompanying *Notes to the Financial Statements*.

Basic Financial Statements

STATEMENTS OF CHANGES IN PLAN NET ASSETS

PENSION TRUST FUNDS – YEAR ENDED JUNE 30, 2010

	MSEP	Judicial Plan	Total
Additions			
Contributions			
State contributions	$ 251,226,187	$27,029,198	$ 278,255,385
Member purchases of service credit	3,576,954	0	3,576,954
Service transfer contributions	10,009	0	10,009
Total contributions	254,813,150	27,029,198	281,842,348
Investment income			
From investing activities:			
Net appreciation in fair value of investments	877,590,620	10,113,608	887,704,228
Interest	46,301,472	533,591	46,835,063
Dividends	4,338,432	49,997	4,388,429
Other	18,933,591	218,196	19,151,787
Total investing activity income	947,164,115	10,915,392	958,079,507
Investing activity expenses:			
Management fees	(83,202,060)	(958,845)	(84,160,905)
Custody fees	(467,132)	(5,383)	(472,515)
Consultant fees	(838,841)	(9,667)	(848,508)
Performance measurement fees	(348,939)	(4,021)	(352,960)
Internal investment activity expenses	(3,599,288)	(41,479)	(3,640,767)
Total investing activity expenses	(88,456,260)	(1,019,395)	(89,475,655)
Net income from investing activities	858,707,855	9,895,997	868,603,852
From securities lending activities:			
Securities lending income	1,020,031	11,755	1,031,786
Securities lending expenses:			
Borrower rebates	526,125	6,063	532,188
Management fees	(355,499)	(4,097)	(359,596)
Total securities lending activities expenses	170,626	1,966	172,592
Net income from securities lending activities	1,190,657	13,721	1,204,378
Total net investment income	859,898,512	9,909,718	869,808,230
Miscellaneous income	639,901	7,374	647,275
Total additions	1,115,351,563	36,946,290	1,152,297,853
Deductions			
Benefits	486,632,411	24,230,545	510,862,956
BackDROP & lump sum benefits	56,651,878	0	56,651,878
Service transfer payments	462,970	0	462,970
Contribution refunds	3,106	0	3,106
Administrative expenses	7,064,544	81,414	7,145,958
Total deductions	550,814,909	24,311,959	575,126,868
Net increase	564,536,654	12,634,331	577,170,985
Net assets held in trust for pension benefits:			
Beginning of year	6,163,086,701	65,919,546	6,229,006,247
End of year	$6,727,623,355	$78,553,877	$6,806,177,232

See accompanying *Notes to the Financial Statements*.

Basic Financial Statements

BALANCE SHEETS

INTERNAL SERVICE FUNDS – AS OF JUNE 30, 2010

	Life & LTD	Deferred Compensation	Total
Assets			
Cash	$ 0	$ 8	$ 8
Premiums receivable	1,013,226	0	1,013,226
Accounts receivable other	0	129,521	129,521
Due to/(due from)	(624,624)	624,624	0
Investments at fair value	3,047,746	55,327	3,103,073
Total assets	$3,436,348	$809,480	$4,245,828
Liabilities and net assets			
Liabilities			
Premiums payable	$2,999,451	$ 0	$2,999,451
Deferred compensation contributions payable	0	55,327	55,327
Checks outstanding net of deposits	1,858	0	1,858
Other	404,922	0	404,922
Total liabilities	3,406,231	55,327	3,461,558
Unrestricted net assets	30,117	754,153	784,270
Total liabilities and net assets	$3,436,348	$809,480	$4,245,828

See accompanying *Notes to the Financial Statements*.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN PLAN NET ASSETS

INTERNAL SERVICE FUNDS – YEAR ENDED JUNE 30, 2010

	Life & LTD	Deferred Compensation	Total
Operating revenues			
Premium receipts	$29,098,799	$ 0	$29,098,799
Deferred compensation receipts	0	69,143,267	69,143,267
Miscellaneous income	436,488	602,881	1,039,369
Total operating revenues	29,535,287	69,746,148	99,281,435
Operating expenses			
Premium disbursements	29,077,825	0	29,077,825
Deferred compensation disbursements	0	69,143,267	69,143,267
Premium refunds	20,974	0	20,974
Administrative expenses	619,916	177,104	797,020
Total operating expenses	29,718,715	69,320,371	99,039,086
Operating revenues over (under) operating expenses	(183,428)	425,777	242,349
Non-operating revenues			
Investment income	9,759	57	9,816
Net revenues over (under) expenses	(173,669)	425,834	252,165
Net assets beginning of year	203,786	328,319	532,105
Net assets end of year	$ 30,117	$ 754,153	$ 784,270

See accompanying *Notes to the Financial Statements*.

Basic Financial Statements

STATEMENTS OF CASH FLOWS

INTERNAL SERVICE FUNDS – YEAR ENDED JUNE 30, 2010

	Life & LTD	Deferred Compensation	Total
Cash flows from operating activities			
Cash received from employer and members	$ 29,872,759	$ 69,424,109	$ 99,296,868
Payments to outside carriers	(28,958,347)	(69,130,434)	(98,088,781)
Refunds of premiums to members	(20,974)	0	(20,974)
Cash payments to employees for services	(216,856)	(136,033)	(352,889)
Cash payments to other suppliers of goods and services	(237,194)	(144,859)	(382,053)
Net cash provided by operating activities	439,388	12,783	452,171
Cash flows from noncapital financing activities			
Implicit funding of checks outstanding net of deposits	1,858	0	1,858
Implicit repayment of prior years checks outstanding net of deposits	(2,810)	0	(2,810)
Net cash used in noncapital financing activities	(952)	0	(952)
Cash flows from investing activities			
Purchase of investment securities	(655,323,693)	(7,468,206)	(662,791,899)
Proceeds from sale and maturities of investment securities	654,875,498	7,455,374	662,330,872
Cash received from investment income	9,759	57	9,816
Net cash used by investing activities	(438,436)	(12,775)	(451,211)
Net increase in cash	0	8	8
Cash balances beginning of year	0	0	0
Cash balances end of year	$ 0	$ 8	$ 8
Reconciliation of operating revenues over (under) operating expenses to net cash provided by operating activities			
Operating revenues over (under) operating expenses	$ (183,428)	$ 425,777	$ 242,349
Adjustments to reconcile operating revenues over (under) operating expenses to net cash provided by operating activities			
Change in assets and liabilities:			
(Increase) decrease in operational accounts receivable	483,754	(468,321)	15,433
Increase in operational accounts payable	139,062	55,327	194,389
Total adjustments	622,816	(412,994)	209,822
Net cash provided by operating activities	$ 439,388	$ 12,783	$ 452,171

See accompanying *Notes to the Financial Statements*.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

(1) Plan Descriptions and Contribution Information

Missouri State Employees' Plan (MSEP)

The MSEP is a single-employer, public employee retirement plan with two benefit structures known as the MSEP (closed plan) and MSEP 2000, which are administered by the Missouri State Employees' Retirement System (MOSERS) in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, MOSERS is a body corporate and an instrumentality of the state. In the system are vested the powers and duties specified in Sections 104.010 and 104.312 to 104.1215, RSMo and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes of Sections 104.010 and 104.312 to 104.1215, RSMo.

Prospective Plan Changes

On July 19, 2010, Governor Jay Nixon signed into law House Bill No. 1, that created new tier defined benefit plans for members of the Missouri State Employees' Retirement System (MOSERS) and the MoDOT and Patrol Employees' Retirement System (MPERS) hired on or after January 1, 2011.

The new tier for MOSERS members (MSEP 2011) will include all new employees first hired on or after January 1, 2011, as members of the MSEP 2000.

Highlights of this change include:

- Changes in normal retirement eligibility for most classifications designed to coincide with the current ultimate minimum eligibility age of 67 for unreduced social security benefits for those born after 1959.
- "Rule of 80" will be increased to a "Rule of 90" and the corresponding minimum eligibility age will be increased from age 48 to age 55.
- The age for early retirement for general employees will be increased from age 57 to age 62 (option available with a reduction).
- Five-year vesting will be increased to ten-year vesting for general employees.
- Member contributions for all classifications equivalent to 4% of pay on a pretax basis; 4% interest will be credited to member accounts at the end of the fiscal year based on the beginning fiscal year balance.
- Elimination of subsidized service purchases for all employee classifications. This will include elimination of subsidized purchases of military and other full-time nonfederal governmental service.
- Elimination of the portability provision that was enacted in the MSEP 2000 Plan.
- Elimination of the BackDROP provision that was enacted in 2002.

The MSEP 2011 does not impact employees currently or previously employed by the state (current members of MOSERS).

Responsibility for the operation and administration of the system is vested in the MOSERS Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the MSEP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Generally, all full-time state employees hired before July 2000, who were not covered under another state-sponsored retirement plan are eligible for membership in the MSEP (closed plan). Full-time state employees hired after July 2000 and before January 2011 are eligible for membership in the MSEP 2000. Employees hired on or after January 2011 will be eligible for membership in the MSEP 2011 tier of the MSEP 2000. MOSERS participates as an employer in the MSEP.

As of the June 30, 2010 valuation, membership in the MSEP consisted of the following:

Retirees and beneficiaries currently receiving benefits		33,251
Terminated employees entitled to, but not yet receiving benefits		17,399
Active		
Vested	37,020	
Nonvested	16,458	53,478
Total membership		104,128

The MSEP provides retirement, survivor, and disability benefits.

MSEP (closed plan)

General state employees are fully vested for benefits upon receiving 5 years of credited service. Under the MSEP (closed plan), general employees may retire with full benefits upon the earliest of attaining:

- Age 65 and active with 4 years of service;
- Age 65 with 5 years of service;
- Age 60 with 15 years of service; or
- Age 48 with age and service equaling 80 or more - "Rule of 80."

General employees may retire early at age 55 with at least 10 years of service with reduced benefits.

The base benefit in the general employee plan is equal to 1.6% multiplied by the final average pay multiplied by years of credited service.

For members hired prior to August 28, 1997, cost-of-living adjustments (COLAs) are provided annually based on 80% of the percentage increase in the average consumer price index (CPI) from one year to the next, with a minimum rate of 4% and maximum rate of 5% until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%.

Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than $10,000.

Contributions are determined through annual actuarial valuations. Administration of the MSEP is financed through contributions to this plan from the state of Missouri and investment earnings.

MSEP 2000

General state employees are fully vested for benefits upon receiving 5 years of credited service. Under the MSEP 2000, general employees may retire with full benefits upon the earliest of attaining:

- Age 62 with 5 years of service; or
- Age 48 with age and service equaling 80 or more - "Rule of 80."

General employees may retire early at age 57 with at least 5 years of service with reduced benefits.

The base benefit in the general employee plan is equal to 1.7% multiplied by final average pay multiplied by years of credited service.

For those retiring under "Rule of 80," an additional temporary benefit equivalent to 0.8% multiplied by final average pay multiplied by years of credited service is payable until age 62.

COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%.

Contributions are determined through annual actuarial valuations. Administration of the MSEP 2000 is financed through contributions to this plan from the state of Missouri and investment earnings.

The state of Missouri is required to make all contributions to the MSEP. Prior to September 1, 1972, contributions by members were required. Accumulated employee contributions made prior to that time, plus interest through August 28, 1997, are refundable to the member or designated beneficiaries upon request.
For a more detailed summary of benefits for general employees and a description of benefits available to legislators and elected officials under the MSEP (closed plan) and the MSEP 2000, refer to the *Summary of Plan Provisions* contained in the *Actuarial Section* of this report.

Judicial Plan

The Judicial Plan is a single-employer, public employee retirement plan administered in accordance with Sections 476.445 to 476.690, RSMo. Responsibility for the operation and administration of the Judicial Plan is vested in the MOSERS Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Judicial Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Judges and commissioners of the supreme court or the court of appeals, judges of the circuit court, probate court, magistrate court, court of common pleas, court of criminal corrections, justices of the peace, or commissioners or deputy commissioners of the circuit court appointed after February 29, 1972, commissioners of the juvenile division of the circuit court appointed pursuant to Section 211.023, RSMo, commissioners of the drug court pursuant to Section 478.466, RSMo, or commissioners of the family court are eligible for membership in the Judicial Plan.

As of the June 30, 2010 valuation, membership in the Judicial Plan consisted of the following:

Retirees and beneficiaries currently receiving benefits		465
Terminated employees entitled to, but not yet receiving benefits		42
Active		
Vested	402	
Nonvested	0	402
Total membership		909

The Judicial Plan provides retirement, survivor, and disability benefits. Members are immediately eligible for benefits.

Under the Judicial Plan, members may retire with full benefits upon the earliest of attaining:

- Age 62 with 12 years of service;
- Age 60 with 15 years of service; or
- Age 55 with 20 years of service.

Employees may retire early at age 62 with less than 12 years of service or age 60 with less than 15 years of service with a reduced benefit that is based upon years of service relative to 12 or 15 years.

In the Judicial Plan, the base benefit for members with 12 or more years of service is equivalent to 50% of compensation on the highest court served.

For members hired prior to August 28, 1997, COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, with a minimum rate of 4% and maximum rate of 5% until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%.

Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than $10,000.

Funding of the Judicial Plan on an actuarial basis began on July 1, 1998. Contributions are determined through annual actuarial valuations. The state of Missouri is required to make all contributions to the Judicial Plan. Administration of the Judicial Plan is financed through contributions to this plan from the state of Missouri and investment earnings.

For a more detailed summary of benefits for members of the Judicial Plan, refer to the *Summary of Plan Provisions* contained in the *Actuarial Section* of this report.

Multi-year trend information regarding whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits can be found in the required supplementary information following the *Notes to the Financial Statements*.

Schedule of Funded Status

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
MSEP	6/30/2010	$ 7,923,377,393	$ 9,853,155,445	$ 1,929,778,052	80.4%	$ 1,945,095,321	99.2%
Judges	6/30/2010	88,976,738	382,012,773	293,036,035	23.3	46,112,730	635.5

	MSEP	Judicial Plan
Valuation date	6/30/2010	6/30/2010
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent	Level percent
Remaining amortization period	30 years open	30 years open
Asset valuation method	5-year smoothed market +/- 25% market corridor	5-year smoothed market +/- 25% market corridor
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	4%	4%
COLAs	2.56%*	2.56%**
Price inflation	3.2%	3.2%

* *On a compound basis, 4% for the first 12 years, 3.1% for the 13th year, and 2.56% per year thereafter.*
** *On a compound basis, 4% for the first 12 years, 3.06% for the 13th year, and 2.56% per year thereafter.*

Missouri State Insured Defined Benefit Insurance Plan

The Missouri State Insured Defined Benefit Insurance Plan is accounted for as an internal service fund of the state of Missouri and is administered by MOSERS. It provides basic life insurance in an amount equal to one times annual salary while actively employed (with a $15,000 minimum) to eligible members of the MSEP and MSEP 2000 (except employees of the Missouri Department of Conservation and certain state colleges and universities), and members of the Judicial Plan and certain members of the Public School Retirement System.

The plan also provides duty-related death benefits, optional life insurance for active employees and retirees who are eligible for basic coverage, and a long-term disability plan for certain eligible members.

For a more detailed description of insurance benefits, refer to the *Summary of Plan Provisions - Life Insurance Plans* in the *Actuarial Section* of this report.

Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Missouri State Insured Defined Benefit Insurance Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as an internal service fund. Administration of the Missouri State Insured Defined Benefit Insurance Plan is financed through contributions to this plan from the state of Missouri.

State of Missouri's Deferred Compensation Plan

The state of Missouri's Deferred Compensation Plan is accounted for as an internal service fund and is administered by MOSERS.

Effective September 1, 2007, legislation transferred responsibility for the administration of the state of Missouri's Deferred Compensation Plan from the State of Missouri's Deferred Compensation Commission to the MOSERS Board of Trustees. The commission was dissolved upon transfer. In order to assist in the transition, two deferred compensation commissioners (the chair of the commission and one House appointed member) remained for a period of time as ex-officio members on the MOSERS board for issues related to the deferred compensation program. This change was initiated by a legislative member

of the commission based on the belief that plan participants would benefit from MOSERS' investment and administrative expertise in monitoring the program.

The plan administration of individual accounts and the investment products available are handled by outside providers and paid from charges to the participants and revenue sharing arrangements. Investment of deferred compensation funds are managed by participants who choose from available options. MOSERS' role is to provide investment options to the participants. MOSERS participates in the revenue sharing arrangement with the plan administrator to cover MOSERS' administrative costs and a portion of participant fees for administrative costs.

Revenue Sharing

	Employee Charges	Revenue Sharing	Total
ING	$ 2,072,815	$ 1,251,300	$ 3,324,115
MOSERS	0	602,881	602,881
Total	$ 2,072,815	$ 1,854,181	$ 3,926,996

(2) Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The financial statements of the MSEP, the Judicial Plan, the Missouri State Insured Defined Benefit Insurance Plan and state of Missouri's Deferred Compensation Plan were prepared using the accrual basis of accounting.

Contributions are due to MOSERS when employee services have been performed and paid. Contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made. The direct method of reporting cash flows is used.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2010. Actual results could differ from those estimates.

Method Used to Value Investments

Section 104.440, RSMo allows the board of trustees to invest the trust fund assets in accordance with the prudent person rule. Investments of the pension trust funds and the internal service funds are reported on the basis of fair market value. The schedule on page 42 provides a summary of the fair values of the investments as reported on the *Statements of Plan Net Assets* of the pension trust funds and balance sheet of the internal service funds. Fair values for the equity real estate investments are based on appraisals. Fair values of the limited partnership investments are based on valuations of the underlying companies of the limited partnerships as reported by the general partner. Certain limited partnerships reflect values on a quarter lag basis due to the nature of those investments and the time it takes to value them. Fair value of the commingled funds are determined based on the underlying asset values. The remaining assets are primarily valued by the investment custodian using the last trade price information supplied by various pricing data vendors.

Cash

Custodial credit risk for cash deposits and investments is the risk that, in the event of a bank failure, the system and plans' deposits may not be returned to them. The board adopted the following policy on June 18, 2009:

The executive director shall require that banks managing demand deposit accounts for any retirement plan associated with MOSERS (MOSERS' defined benefit plan and the deferred compensation plan/state incentive compensation plan) to hold, at minimum, collateral security in either MOSERS' name or the state of Missouri Deferred Compensation Plan and in an amount equal to or more than the amount on deposit that exceeds the Federal Deposit Insurance Corporation

(FDIC) insured amount. The types of collateral security shall be included on a list maintained by the State Treasurer's office in accordance with Section 30.270 RSMo, but in no case may a bank pledge collateral that does not specifically allow MOSERS to release the collateral or pledge collateral that represents securities of the pledging banks.

Cash balances represent both demand deposit accounts held at the bank and investment cash on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested in an overnight sweep account, thus causing a possible negative book balance. Negative book balances are reflected in the liabilities section of the balance sheet of the internal service fund and included in the cash and short-term investments on the *Statements of Plan Net Assets* of the pension trust funds.

The table below is a schedule of the aggregate book and bank balances of all cash accounts. Funds held in the sweep account are not covered by Federal Deposit Insurance Corporation (FDIC) insurance. Effective July 1, 2009, the Repurchase Agreement was amended to remove the bank's right to substitute other appropriate securities under this agreement. Central Trust Bank pledged the following securities to MOSERS on June 30, 2010, as collateral for overnight repurchase agreements:

- $2,215,218 Small Business Administration Pool #508605 – maturity date - 07/25/2016 – fair value - $1,347,406
- $1,000,000 Small Business Administration Pool #507920 – maturity date - 01/25/2019 – fair value - $517,078
- $2,000,000 Small Business Administration Pool #508037 – maturity date - 02/25/2019 – fair value - $1,154,780
- $1,631,538 Small Business Administration Pool #521629 – maturity date - 07/25/2019 – fair value - $1,546,881
- $2,000,000 Small Business Administration Pool #508579 – maturity date - 10/25/2020 – fair value - $1,670,171

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOSERS. As of June 30, 2010, MOSERS' fixed income assets that are not government guaranteed represented 56% of the fixed income portfolio. In preparing this report, credit risk associated with all fixed income holdings including collateral for repurchase agreements and securities lending collateral has been included. The tables on the following page summarize MOSERS' fixed income portfolio average credit quality and exposure levels.

As a matter of practice, there are no overarching limitations for credit risk exposures within the overall fixed income portfolio. Each individual portfolio within fixed income is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and average credit quality. MOSERS is notified by the investment manager when an investment with a quality credit rating of CC or lower is purchased and in those circumstances of downgrades subsequent to purchase. In those cases, the investment manager may be given permission to hold the security, usually due to mitigating circumstances such as a very short maturity or a much higher rating from one of the other ratings agencies, but may include situations in which the investment manager believes that worst case recovery values exceed market pricing.

Credit risk for derivative instruments held by the system results from counterparty risk assumed by MOSERS. This is essentially the

Aggregate Book and Bank Balances

	Cash Balances	
	Book	Bank/Investment Custodian
Pension Trust Funds - investment custodian	$34,271,330	$34,271,330
Pension Trust Funds - demand deposits	(10,434,927)	4,026
Internal Service Fund - insurance plan demand deposits	(1,858)	64
Internal Service Fund - deferred compensation plan demand deposits	8	8

risk that the counterparty to a MOSERS transaction will be unable to meet its obligation. Information regarding MOSERS' credit risk related to derivatives is found under the derivatives disclosures on page 39- 41 of these notes.

Policies related to credit risk pertaining to MOSERS' securities lending program are found under the securities lending disclosures on page 40 of these notes.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single-issuer. There is no single-issuer exposure within the MOSERS' portfolio that comprises 5% or more of the overall portfolio. Therefore, there is no concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed by using the effective duration or option adjusted methodology. It is widely used in the management of fixed income portfolios by quantifying the risk of interest rate changes. This methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. Within the investment policy, operational guidelines specify the degree of interest rate risk taken within the system's fixed income portfolios, with the exception of some portfolios in which credit risk is the predominant factor and is also controlled by specific guidelines.

Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities

Fixed Income Security Type	Market Value June 30, 2010	Percent of all Fixed Income Assets	Weighted Average Credit Quality	Ratings Dispersion Requiring Further Disclosure
Mortgages	$ 306,008	0.0%	Agency	None
Collateralized mortgage obligations	114,558,889	5.6	CCC+	See table below
Asset-backed securities	79,638,370	3.9	BBB+	See table below
Corporate bonds	240,360,288	11.9	BBB	See table below
Bank loans	88,623,498	4.4	B	See table below
Bank deposits	200,049,667	9.9	FDIC insured	None
Repurchase agreements	300,002,667	14.8	Not rated	None
Pooled investments	118,507,779	5.8	AAA	See table below
Total nongov't guaranteed securities	$1,142,047,166	56.3%		
Total fixed income securities	$2,027,743,574			

Ratings Dispersion Detail - Market Value

Credit Rating Level	Collateralized Mortgage Obligations	Asset-Backed Securities	Corporate Bonds	Bank Loans	Pooled Investments
Agency	$ 4,613,348				
AAA		$ 35,193,524	$ 31,944,197		$ 118,263,490
AA	723,776	67,248	16,758,130		
A	3,359,981	816,392	96,517,241		
BBB		18,548,012		$ 473,133	
BB	566,266	1,792,553	18,678,424	33,360,254	
B	12,941,334	13,850,419	47,738,811	39,455,553	
CCC	55,439,623	7,283,158	16,667,495	7,826,977	
CC	29,698,280	1,134,080	23,547		
C				1,218,768	
D	7,216,281	952,984			
Not rated			12,032,443	6,288,813	244,289
	$114,558,889	$79,638,370	$240,360,288	$88,623,498	$118,507,779

It is believed that the reporting of effective duration found in the tables below quantifies to the fullest extent possible the interest rate risk of the system's fixed income assets.

MOSERS invests in mortgage-backed securities and securities where the issuer has the right to call the securities, which are reported at fair value in the *Statements of Plan Net Assets* of the pension trust funds. As a result, these securities are sensitive to prepayments, which are likely in declining interest rate environments. MOSERS invests in these securities to diversify the portfolio and increase the return while minimizing the extent of risk. This prepayment risk is incorporated in the effective duration calculation used in the interest rate risk analysis.

As of fiscal year-end, MOSERS was invested in two structured bonds (inverse variable-rate notes) in which the coupon on the bonds varies inversely with the one month London Inter-Bank Offer Rate (LIBOR). As interest rates increase, the coupon rate declines. As of June 30, 2010, the notes had a fair value of $1,530,325 and an average coupon of 6.26%. Manager guidelines are very specific as to the use of structurally complex securities and do not allow for coupon changes based off of inappropriate indices or that change disproportionately to the rate changes experienced in traditional interest rate markets.

Repurchase Agreements

Repurchase agreements (repos) are basically a secured loan with the collateral held at a custodian bank. Typical collateral for repos include treasury securities, agency securities, mortgage-backed securities, investment grade corporate bonds, commercial paper, and common stock. Repos are typically done for an overnight term; however, they can be done for a longer term. MOSERS enters into repo transactions to earn interest on short-term funds.

Effective Duration of Fixed Income Assets by Security Type

Fixed Income Security Type	Market Value June 30, 2010	Percent of all Fixed Income Assets	Weighted Average Effective Duration (Years)	Interest Rate Risk Requiring Further Disclosure
U.S. treasuries	$ 845,665,076	41.7%	4.6	see table below
Gov't guaranteed mortgages	31,332	0.0	3.0	none
Mortgages	306,008	0.0	1.6	none
Collateralized mortgage obligation	114,558,889	5.6	0.1	none
Asset-backed securities	79,638,370	3.9	0.0	none
Corporate bonds	240,360,288	11.9	1.1	none
Bank loans	88,623,498	4.4	0.2	none
Bank deposits	200,049,667	9.9	0.0	none
Repurchase agreements	340,002,667	16.8	0.0	none
Pooled investments	118,507,779	5.8	0.0	none
	$2,027,743,574	100.0%	2.1	

Effective Duration Analysis of U.S. Treasuries

	Market Value June 30, 2010	Average Effective Duration of the Security Type	Contribution to Effective Duration
Less than 1 year to maturity	$ 76,902,813	0.0	0.0
1- to 10-year maturities	443,691,088	2.4	1.2
Long coupon treasuries	280,591,275	7.7	2.6
Long stripped treasuries	44,479,899	14.5	0.8
	$845,665,075		4.6

Repurchase Agreements by Collateral Type

Collateral Type	Market Value June 30, 2010	Market Value of Repurchase Agreement June 30, 2010	Percent Over Collateralized
U.S. treasuries	$ 44,207,359	$ 40,000,000	10.5%
Common stock	324,000,085	300,002,667	8.0
	$368,207,444	$340,002,667	8.3

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. MOSERS' currency risk exposures, or exchange rate risk, primarily reside within MOSERS' international equity investment holdings. MOSERS' implementation policy is to allow external managers to decide what action to take regarding their respective portfolio's foreign currency exposures using currency forward contracts. MOSERS' exposure to foreign currency risk in U.S. dollars as of June 30, 2010, is shown in the table below.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange.

While the board has no formal policy specific to derivatives, the MOSERS investment implementation program, through its external managers, holds investments in futures contracts, swap contracts, and forward foreign currency exchange. MOSERS enters into these certain derivative instruments primarily to enhance the performance and reduce the volatility of its portfolio. MOSERS enters into swaps and futures contracts to gain or hedge exposure to certain markets

Currency Exposures by Asset Class

Currency	Cash & Cash Equivalents	Equities	Fixed Income	Alternatives	Total
Australian Dollar		$ 6,866,850			$ 6,866,850
Brazilian Real	$ 360,684	13,586,036			13,946,720
Canadian Dollar	2,271	2,974,004			2,976,275
Chilean Peso		113,746	$ 43,867		157,613
Czech Koruna		2,433,838			2,433,838
Danish Krone		4,924,072			4,924,072
Egyptian Pound	1,841	2,312,498			2,314,339
Euro	94,853	155,617,621	7,647,392	$99,752,915	263,112,781
Hong Kong Dollar	491,976	47,915,393			48,407,369
Hungarian Forint	35,200	2,414,009			2,449,209
Indian Rupee	117,107	7,254,302			7,371,409
Indonesian Rupiah		2,937,361			2,937,361
Israeli Shekel	3	20			23
Japanese Yen	2,339,755	337,140,539			339,480,294
Malaysian Ringgit	(1,497)	4,095,348			4,093,851
Mexican Peso	233	11,690,293			11,690,526
Norwegian Krone		1,766,624			1,766,624
Peruvian Nuevo Sol		74,862			74,862
Philippines Peso	(23,897)	647,787			623,890
Polish Zloty		1,608,352			1,608,352
Russian Ruble		303,015			303,015
Singapore Dollar		37,553,707			37,553,707
South African Rand	4	3,363,311			3,363,315
South Korean Won	54,833	34,438,802	2,009,992		36,503,627
Sri Lanka Rupee		2,516			2,516
Swedish Krona		13,846,101			13,846,101
Swiss Franc	77	68,751,576			68,751,653
Taiwan New Dollar	1,530	23,073,656			23,075,186
Thai Baht	410	21,635,622			21,636,032
Turkish Lira		11,727,412			11,727,412
United Kingdom Pound Sterling	21,869	100,079,166	2,748,593		102,849,628
Chinese Yuan Renminbi		53,230			53,230
Venezuela Boliviar	53,623				53,623
Moroccan Dirham	(727)	216,070			215,343
Ukraine Hryvana		56			56
Grand Total	$3,550,148	$921,417,795	$12,449,844	$99,752,915	$1,037,170,702

and to manage interest rate risk and foreign currency forward contracts primarily to hedge foreign currency exposure. The tables on the following page summarize the various contracts in the portfolio as of June 30, 2010. The notional values associated with these derivative instruments are generally not recorded on the financial statements; however, the amounts for the exposure on these instruments are recorded in the investments at fair value in the *Statements of Net Plan Assets* and the total changes in fair value for the year are included as investment income in the *Statements of Changes in Plan Net Assets*. For the year ending June 30, 2010, the change in fair value in the swap contracts resulted in $26.4 million of investment income. The change in fair value in the futures contracts resulted in $121.8 million of investment income and the change in fair value of the foreign exchange contracts resulted in a loss of $86,762 of investment income. The interest rate risk associated with the swaps and futures tables are included on the following page. MOSERS does not anticipate additional significant market risk from the swap arrangements.

MOSERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MOSERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and collateral posting procedures. MOSERS anticipates the counterparties will be able to satisfy their obligations under the contracts.

Investments in limited partnerships and commingled funds may include derivatives that are not shown in the derivative totals.

Securities Lending Program

The board of trustees' investment policy permits the pension trust funds to participate in a securities lending program. Fixed income, international equity, and domestic equity securities of the pension trust funds are loaned to participating brokers who provide collateral in the form of cash, U.S. treasury or government agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% of market value for domestic loans and 105% of market value for international loans. MOSERS does not have the authority to pledge or sell collateral securities without borrower default. Securities on loan at fiscal year-end for cash collateral and on loan for noncash collateral are presented in the schedule on page 42.

On June 30, 2010, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

As of June 30, 2010, Deutsche Bank AG, New York Branch, served as the agent for the fixed income, domestic equity and international equity securities lending programs. In this capacity, MOSERS reduces credit risk by allowing Deutsche Bank to lend these securities to a diverse group of dealers on behalf of MOSERS. Indemnification against dealer default is provided by Deutsche Bank AG, a "AA-rated" bank. With each of MOSERS' securities lending programs, a majority of loans are open loans and can be terminated on demand by either MOSERS or the borrower. Net income from the three lending programs is split on an 85/15 basis between MOSERS and Deutsche Bank, respectively.

Daily monitoring of securities that are on loan ensures proper collateralization levels and mitigates counterparty risk. Cash collateral from all three programs is commingled and invested in a separately managed short-term investment fund for MOSERS. This cash collateral fund is managed by Deutsche Bank. On June 30, 2010, the cash collateral fund had a market value of $192,640,173 and a weighted average maturity of 11 days. During the fiscal year, MOSERS experienced a decline in loaned securities. The value of invested collateral continues to be below the level of liabilities. If all loans were terminated at June 30, 2010, MOSERS would have needed to make up the $10 million difference between the invested collateral and the collateral liability. For all of the securities lending operational services, the custodian is paid an annual fee, which is netted against MOSERS' earnings in the securities lending programs managed by Deutsche Bank.

Futures Contracts

Futures Contract	2010 Expiration Date	Long/Short	Notional/Fair Value	Exposure
U.S. Ultra Bond	September	Long	$ 26,347,625	$ (137,313)
U.S. Long Treasury Bond	September	Long	11,475,000	(75,000)
U.S. 10-year Treasury Notes	September	Long	165,193,188	(17,656)
U.S. 2-year Treasury Notes	September	Long	180,970,859	34,703
S&P 500 Index	September	Long	216,047,970	1,830,915
S&P 400 Index	September	Long	55,380,000	280,800
Gold 100 Oz	August	Long	65,535,340	(184,100)
Total			$720,949,982	$1,732,349

Swap Contracts

MOSERS Receives	Maturity Date	Notional Value	Exposure	Index Counterparty	Counterparty Credit Rating*
S&P 500 Total Return	4/29/2011	$ 102,276,851	$ 5,649,818	Deutsche Bank	Aa3/A+
S&P 500 Total Return	7/30/2010	86,849,665	4,797,613	JP Morgan Chase	Aa3/A+
S&P 100 Consumer Staples Total Return	10/29/2010	61,070,828	4,806,599	Goldman Sachs	A1/A
S&P 100 Energy Total Return	10/29/2010	55,247,571	10,671,770	Goldman Sachs	A1/A
S&P 100 Health Care Total Return	10/29/2010	59,682,561	5,255,126	Goldman Sachs	A1/A
S&P 100 Technology Total Return	10/29/2010	61,099,274	10,079,908	Goldman Sachs	A1/A
MSCI EAFE Total Return	5/31/2011	50,164,091	615,569	Deutsche Bank	Aa3/A+
MSCI EASE Total Return	6/15/2011	81,107,923	3,892,077	JP Morgan Chase	Aa3/A+
MSCI EASE Total Return	5/25/2011	105,037,455	(5,037,455)	JP Morgan Chase	Aa3/A+
MSCI EASE Total Return	2/28/2011	99,297,418	956,448	JP Morgan Chase	Aa3/A+
Three Month LIBOR Quarterly	8/31/2010	34,256,303	(689,725)	Deutsche Bank	Aa3/A+
MSCI EASE Total Return	2/28/2011	30,769,397	296,375	JP Morgan Chase	Aa3/A+
Barclays Capital Aggregate	12/31/2010	35,143,001	0	Goldman Sachs	A1/A
Barclays Capital Aggregate	9/30/2010	12,188,177	(188,177)	JP Morgan Chase	Aa3/A+
Barclays Capital Aggregate	2/28/2011	10,958,230	(169,188)	JP Morgan Chase	Aa3/A+
Barclays Capital Aggregate	8/31/2010	68,050,656	(1,050,656)	Merrill Lynch	A2/A
Three Month LIBOR Quarterly	6/16/2014	10,000,000	12,128	Deutsche Bank	Aa3/A+
Three Month LIBOR Quarterly	12/10/2014	10,000,000	6,946	Deutsche Bank	Aa3/A+
S&P GSCIER Custom minus S&P GSCIER	3/11/2011	50,000,000	44,811	Merrill Lynch	A2/A
S&P GSCI Crude ER Custom minus S&P GSCI Crude ER	12/14/2010	20,000,000	23,486	Goldman Sachs	A1/A
S&P GSCITR Custom	3/31/2011	102,948,791	(326,578)	Merrill Lynch	A2/A
S&P GSCITR Custom	1/31/2011	47,569,167	(150,432)	Merrill Lynch	A2/A
Total		$1,193,717,359	$39,496,463		

** Ratings obtained from Moody's/Fitch*

Foreign Currency Forward Contracts at June 30, 2010

Pending receivable	$ 161,691,771
Pending payable	(161,856,849)
Foreign currency forward contract asset (liability)	$ (165,078)

Investments as of June 30, 2010

	Pension Trust Funds		Internal Service Funds	
	Investments at Cost Value	Investments at Fair Value	Investments at Cost Value	Investments at Fair Value
Common stocks				
Out on loan	$ 165,309,886	$ 175,651,611		
Not on loan	732,822,635	664,049,207		
Total	898,132,521	839,700,818		
International equities				
Out on loan	11,088,228	11,842,321		
Not on loan	520,367,488	806,187,295		
Total	531,455,716	818,029,616		
International corporate bonds				
Out on loan	300,000	309,375		
Not on loan	36,709,835	12,464,289		
Total	37,009,835	12,773,664		
Corporate bonds				
Out on loan	7,154,295	7,257,465		
Not on loan	194,876,578	183,839,701		
Total	202,030,873	191,097,166		
Preferred stocks	8,874,930	7,962,150		
Government bonds and gov't mortgage-backed securities	37,878,482	37,757,077		
Treasury bonds, notes and bills	761,998,628	838,787,993		
Convertible bonds	2,805,216	3,232,719		
Repurchase agreements	533,465	533,465	$3,103,073	$3,103,073
Short-term investment funds	731,479,682	731,479,682		
Collateralized mortgage obligations	104,982,613	106,322,010		
Foreign currencies	4,107,510	4,050,737		
Limited partnerships	2,665,806,798	3,319,969,737		
Bank loans	88,936,025	87,268,972		
Total investments				
Out on loan	183,852,409	195,060,772		
Not on loan	5,892,179,885	6,803,905,034	3,103,073	3,103,073
Total	$6,076,032,294	$6,998,965,806	$3,103,073	$3,103,073

Reconciliation to investments on *Statements of Net Assets*	
Total from above	$6,998,965,806
Less short-term investments	
Repurchase agreements	(533,465)
Short-term investment funds	(606,500,028)
Less invested securities lending collateral	
Short-term investment funds	(124,979,654)
Corporate bonds	(67,660,518)
Investments on *Statements of Plan Net Assets*	$6,199,292,141

Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS office.

Limited Partnerships

Many of MOSERS' alternative investments are organized in the form of limited partnerships. In these partnerships, the manager is the general partner and the limited partners are the investors. As of June 30, 2010, MOSERS had contracts with 70 limited partnerships across various types of alternative investments. These partnerships collectively represent 49% of the total fund. A schedule of limited partnerships is presented below.

Limited Partnerships

Partnership Name	Style	Investments at Fair Value as of June 30, 2010
Actis Emerging Markets III	Emerging markets	$ 17,228,839
African Development Partners I, LLC	Emerging markets	4,868,973
Alinda Infrastructure Fund I, LP	Corporate buyout	27,196,683
AQR Absolute Return Institutional Fund, LP	Multi-strategy	130,492,369
AQR DELTA Sapphire Fund, LP	Muti-strategy	109,375,918
Axiom Asia Private Capital Fund II, LP	Emerging markets	4,551,152
Bayview Opportunity Domestic, LP - high yield	Distressed real estate debt	86,316,494
Bayview Opportunity Domestic, LP - real estate	Distressed real estate debt	28,772,165
Blackstone Distressed Securities Fund, LP	Long/short - credit	2,945,894
Blackstone Hedged Equity Fund, LP	Long/short - fund-of-funds	213,201,711
Blackstone Real Estate Partners IV	Active real estate	37,907,527
Blackstone Real Estate Partners V	Active real estate	59,425,165
Blackstone Real Estate Partners VI	Active real estate	30,436,257
Blackstone Topaz Fund, LP	Multi-strategy - fund-of-funds	219,509,748
Blakeney Onyx, LP	Emerging markets	127,094,802
Brevan Howard, LP	Global macro	51,240,296
Bridgepoint Europe III A, LP	Corporate buyout	21,210,515
Bridgepoint Europe IV B, LP	Corporate buyout	6,438,717
Bridgewater Associates - Diamond Ridge Fund, LLC	Global macro	103,008,469
Campbell Timber Fund II-A, LP	Timberland	46,853,930
CarVal Investors CVI Global Value Fund A, LP - private debt	Distressed real estate debt	47,450,000
CarVal Investors CVI Global Value Fund A, LP - real estate	Distressed real estate debt	47,450,000
Catterton Partners V, LP	Corporate buyout	20,277,973
Catterton Partners VI, LP	Corporate buyout	20,690,163
Claren Road Credit Partners, LP	Long/short - credit	49,387,892
Davidson Kempner Institutional Partners, LP	Event driven	77,490,844
DDJ Capital Management - B IV Capital Partners, LP	Distressed debt	15,569,404
Diamondback Partners, LP	Long/short - equity	78,329,206
DRI Capital - LSRC	Intellectual property	40,334,852
DRI Capital - LSRC II	Intellectual property	981,362
Elliott International Ltd.	Multi-strategy	51,728,939
Eminence Fund, Ltd.	Long/short - equity	46,350,743
Eton Park Fund, LP	Multi-strategy	51,965,081
Farallon Capital Institutional Partners, LP	Multi-strategy	47,597,247
Fortress Mortgage Opportunities Fund Series 2	Distressed real estate debt	27,177,733
Garnet Sky Investors Company Ltd.	Timberland	73,664,855
Global Forest Partners GTI7 Institutional Investors Company Ltd.	Timberland	76,355,680
HBK Offshore Fund, Ltd.	Multi-strategy	32,713,780
JLL Partners Fund V, LP	Corporate buyout	24,908,769
JLL Partners Fund VI, LP	Corporate buyout	15,243,730
King Street Capital, LP	Credit driven	75,839,810
King Street Capital, Ltd.	Credit driven	3,929,513
Merit Energy Partners F-II, LP	Energy - oil & gas	7,289,830
MHR Institutional Partners IIA, LP	Distressed debt	39,258,336
MHR Institutional Partners III, LP	Distressed debt	34,768,627
Millennium Technology Value Partners II, LP	Direct secondaries	1,000,000
Moon Capital Global Equity Offshore Fund, Ltd.	Long/short - equity	799,740

Continued on page 44

Limited Partnerships continued from page 43

Partnership Name	Style	Investments at Fair Value as of June 30, 2010
New Mountain Partners III, LP	Corporate buyout	14,252,241
Oaktree European Credit Opportunities Fund, LP	European loans	67,234,710
OCM Opportunities Fund IVB, LP	Distressed debt	(28,587)
OCM Opportunities Fund VIIb, LP	Distressed debt	124,361,097
OCM Real Estate Opportunities Fund III, LP	Active real estate	34,344,646
OCM/GFI Power Opportunities Fund II, LP	Corporate buyout	11,345,602
PAAMCO - Newport Pioneer, LLC	Multi-strategy - fund-of-funds	221,456,458
Parish Capital Buyout Fund I, LP	Corporate buyout - fund-of-funds	15,902,162
Parish Capital Buyout Fund II, LP	Corporate buyout - fund-of-funds	13,751,478
Parish Opportunities Fund II, LP	Private equity co-investment	15,238,502
Perry Partners, LP	Multi-strategy	452,473
Resource Management Service - Wildwood Timberlands, LLC	Timberland	134,659,140
Silver Creek Special Opportunities Fund I, LP	Special situations - fund-of-funds	22,895,203
Silver Creek Special Opportunities Fund II, LP	Special situations - fund-of-funds	23,553,671
Silver Lake Partners II, LP	Corporate buyout	24,572,792
Silver Point Capital Fund, LP	Credit driven	52,518,693
TCW Energy Fund XIV, LP	Energy - mezzanine	31,459,345
TCW Energy Partners, LLC	Energy - diversified	37,152,477
The Veritas Capital Fund III, LP	Corporate buyout	32,860,838
TPG - Axon Partners (Offshore) Ltd.	Long/short - equity	43,650,337
Viking Global Equities III, Ltd.	Long/short - equity	60,209,719
Wellington Management - Spindrift Investors	Long/short - equity	1,477,678
Other	Miscellaneous	19,331
		$3,319,969,739

Capital Assets

Office building, furniture, fixtures, and equipment costing $250 or more when acquired are capitalized at cost. Improvements, which increase the useful life of the property, are also capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related assets according to the following schedule:

- 5 years for furniture, fixtures, and equipment
- 40 years for building

The following is a schedule of the capital asset account balances as of June 30, 2009, and June 30, 2010, and changes to those account balances during the year ended June 30, 2010.

Capital Asset Account

Capital Assets	Land	Building and Building Improvements	Furniture, Fixtures, and Equipment	Total Capital Assets
Balances June 30, 2009	$267,286	$3,549,468	$1,764,371	$5,581,125
Additions		3,415	87,463	90,878
Deletions			(26,610)	(26,610)
Balances June 30, 2010	267,286	3,552,883	1,825,224	5,645,393
Accumulated depreciation:				
Balances June 30, 2009		905,939	1,362,129	2,268,068
Depreciation expense		78,371	134,169	212,540
Deletions			(25,562)	(25,562)
Balances June 30, 2010		984,310	1,470,736	2,455,046
Net capital assets June 30, 2010	$267,286	$2,568,573	$ 354,488	$3,190,347

(3) Contributions and Reserves

The MSEP and the Judicial Plan are pension plans covering substantially all state of Missouri employees, administrative law judges and legal advisors in the Division of Workers' Compensation, and judges. The state of Missouri is obligated by state law to make all required contributions to the plans. The required contributions are expressed as a level percentage of covered payroll and are actuarially determined using an individual entry-age actuarial cost method. The unfunded accrued liabilities are amortized over an open 30-year period. Costs of administering the plans are financed from the contributions to the pension trust funds and investment earnings.

(4) Other Postemployment Benefits (OPEB)

In addition to the retirement benefits provided through MOSERS, the state of Missouri also funds, either partially or in its entirety, OPEB for eligible retirees as follows:

Retiree Life Insurance
Members who retire on or after October 1, 1985, are eligible for $5,000 of state-sponsored basic life insurance coverage if they retire directly from active employment. As of June 30, 2010, 18,466 retirees were eligible and participating in the program. This insured defined benefit coverage is financed on a percent of payroll (.115%) and is purchased as a group policy through competitive bids and is currently administered through The Standard Insurance Company. The cost for year ended June 30, 2010, was $1,893,173. Premiums are contributed entirely by the state as provided for by Section 104.515, RSMo.

Retirees of the Department of Labor and Industrial Relations (DOLIR), who retired prior to January 1, 1996, are eligible for state-sponsored insured defined benefit insurance coverage in the same amount of coverage they were receiving through the DOLIR. As of June 30, 2010, 358 retirees were eligible and participating in the program. The coverage for this closed group is purchased as a group policy through competitive bids at a current cost of $2.07 per thousand dollars of coverage, per month, per eligible participant ($42,767 for the year ended June 30, 2010). Premiums are paid entirely by the DOLIR as provided for by Section 228.225, RSMo. Retirees of the DOLIR who retired on or after January 1, 1996, are eligible for $5,000 of state-sponsored life insurance coverage if they retire directly from active employment. They are included in the group described in the preceding paragraph.

Long-Term Disability Insurance
MOSERS also provides long-term disability coverage for eligible members. Membership generally includes those active members of MOSERS' retirement plans who do not have other disability coverage and are not yet eligible to receive normal (unreduced) retirement benefits. As of June 30, 2010, 37,281 members were eligible and covered under the program. This insured defined benefit coverage is financed on a percentage of covered payroll (.55%) and is purchased as group policy through competitive bids and is currently administered through The Standard Insurance Company. The cost for the year ended June 30, 2010, was $8,255,720. Premiums are contributed by the state as provided for by Section 104.515, RSMo.

Postemployment Retiree Health Care
MOSERS participates in a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Missouri Consolidated Health Care Plan (MCHCP). The plan provides medical benefits to retirees of participating governmental entities. Retirees who had medical insurance coverage for six months immediately prior to termination or state-sponsored medical coverage since the effective date of the last enrollment period (or since first eligible), before they are eligible to retire, may continue coverage into retirement. MCHCP issues a publicly available financial report that includes financial statements and required supplementary information for the postemployment health care plan. The report may be obtained by writing to the MCHCP, 832 Weathered Rock Court, P.O. Box 104355, Jefferson City, MO 65110-4355 or by calling (800) 487-0771.

Plan funding requests are actuarially determined, approved by the MCHCP Board of Trustees, and subject to appropriation by the Missouri General Assembly. MOSERS contributed $191,341 in FY08, $236,191 in FY09, and $277,645 in FY10 in accordance

with the state's funding policy toward the annual required contributions for postemployment retiree health care, which equaled MOSERS required contribution each year.

(5) Plan Termination

MOSERS and its related plans are administered in accordance with Missouri statutes. Plans can only be terminated by an amendment to these statutes by the Missouri legislature.

On April 26, 2005, Senate Bill 202 was enacted, which terminated the Administrative Law Judges and Legal Advisors' Plan (ALJLAP) for new hires only. Under this legislation, individuals who assume a position after April 26, 2005, who would have otherwise been covered by the ALJLAP, will instead participate in the MSEP or the MSEP 2000, depending on when they initially became state employees. For fiscal years 2005 and after, all liabilities and assets of the ALJLAP were transferred and combined with the MSEP. Membership totals for ALJLAP members are combined with the MSEP in all relevant sections of this report.

(6) Commitments

As of June 30, 2010, MOSERS has $396,355,331 and €50,005,653 unfunded commitments in the alternative investments asset class.

(7) Contingencies

MOSERS is a defendant in three lawsuits and a plaintiff in one lawsuit that, in management's opinion, will not have a material effect on the financial statements.

The Internal Revenue Service (IRS) audited the tax qualified status of MOSERS. In a discussion draft dated August 9, 2007, the IRS raised two qualification issues but no further action has been taken by the IRS on those matters. MOSERS does not anticipate material liability for any taxes or penalties.

Required Supplementary Information

SCHEDULES OF FUNDING PROGRESS

PENSION TRUST FUNDS – LAST SIX YEARS

MSEP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
6/30/2005	$6,435,344,102	$7,578,028,017	$1,142,683,915	84.9%	$1,806,600,560	63.3%
6/30/2006	6,836,567,188	8,013,205,414	1,176,638,226	85.3	1,777,277,138	66.2
6/30/2007	7,377,289,283	8,500,428,641	1,123,139,358	86.8	1,846,643,330	60.8
6/30/2008	7,838,495,768	9,128,347,470	1,289,851,702	85.9	1,916,527,398	67.3
6/30/2009	7,876,079,342	9,494,806,715	1,618,727,373	83.0	2,002,402,087	80.8
6/30/2010	7,923,377,393	9,853,155,445	1,929,778,052	80.4	1,945,095,321	99.2

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
6/30/2005	$44,223,509	$292,303,886	$248,080,377	15.1%	$40,016,098	620.0%
6/30/2006	51,652,867	309,002,752	257,349,885	16.7	40,270,535	639.1
6/30/2007	61,903,516	326,666,373	264,762,857	19.0	40,846,581	648.2
6/30/2008	73,194,379	354,796,453	281,602,074	20.6	44,542,530	632.2
6/30/2009	81,337,881	369,106,841	287,768,960	22.0	45,505,512	632.4
6/30/2010	88,976,738	382,012,773	293,036,035	23.3	46,112,730	635.5

See *Notes to the Schedules of Required Supplementary Information*.
See accompanying *Independent Auditor's Report*.

Required Supplementary Information

SCHEDULES OF EMPLOYER CONTRIBUTIONS

PENSION TRUST FUNDS – LAST SIX YEARS

MSEP

	Annual Required Contribution		
Year Ended June 30	Percent	Dollar Amount	Percentage Contributed
2005	10.64%	$194,524,059	100%
2006	12.59	226,338,183	100
2007	12.78	239,488,751	100
2008	12.84	249,770,156	100
2009	12.53	252,105,008	100
2010	12.75	251,226,187	100

ALJLAP*

	Annual Required Contribution		
Year Ended June 30	Percent	Dollar Amount	Percentage Contributed
2005	22.13%	$1,124,924	100%
2006*	21.79	895,012	100

* *The ALJLAP was transitioned to the MSEP Plan in FY05. FY06 was the last year for separate ALJLAP contributions. Future contributions are included in the MSEP rate.*

Judicial Plan

	Annual Required Contribution		
Year Ended June 30	Percent	Dollar Amount	Percentage Contributed
2005	54.51%	$21,852,985	100%
2006	55.76	22,401,569	100
2007	58.48	23,745,467	100
2008	58.65	26,215,309	100
2009	60.07	27,725,882	100
2010	58.48	27,029,198	100

See *Notes to the Schedules of Required Supplementary Information*.
See accompanying *Independent Auditor's Report*.

Required Supplementary Information

NOTES TO THE SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

PENSION TRUST FUNDS – LAST SIX YEARS

Actuarial Methods and Assumptions for Valuations Performed June 30, 2010

The entry-age actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are expressed as a percent of payroll. An open 30-year amortization period was used for the June 30, 2010 valuations. The actuarial value of assets is based on a method that fully recognizes expected investment returns and averages unanticipated market return over a 5-year period. However, at their meeting in September 2005, the MOSERS board considered the extreme volatility in the markets. As a result, the board elected to set the actuarial value of assets to market value as of June 30, 2005. Consequently, all remaining unrecognized investment gains or losses that would have otherwise been recognized over a period of years were fully recognized as of June 30, 2005. In the September 2009 meeting, the MOSERS board, in light of the severely negative market conditions, adopted a temporary change to the market corridor limit of the valuation assets from +/- 20% to +/- 30% for the June 30, 2009 valuation. The limit was decreased to +/- 25% for the June 30, 2010 valuation and is scheduled to return to +/- 20% thereafter. The investment return rate assumption used is 8.5% per year, compounded annually (net of investment expenses). The price inflation assumption used is 3.2% per year. Projected salary increase assumptions are based on 0% the first year, to reflect the state's pay freeze, and 4% per year thereafter for wage inflation plus an additional .3% to 3.5% per year for the MSEP and 0% to 1.6% per year for the Judicial Plan (depending on age, attributable to seniority, and/or merit increases). The assumption used for annual post-retirement benefit increases is 4% (on a compound basis) for approximately the first 12 years, 3.1% for the 13th year, and 2.56% per year thereafter or 2.56% per year, depending upon the date of hire and benefit election.

2003 The actuarial valuations as of June 30, 2003, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2005.

	Amount	Percent of Payroll
MSEP		
Reduction in projected across-the-board pay increases to 1.67% for the fiscal year ending June 30, 2005	$(6,089,634)	(.35)%
Plan experience	28,543,284	1.64
ALJLAP		
Recognition of state pay freeze for annual salaries above $40,000	(18,632)	(.40)
Plan experience	112,255	2.41
Judicial Plan		
Recognition of state pay freeze for annual salaries above $40,000	(224,297)	(.56)
Plan experience	1,357,795	3.39

2004 The actuarial valuations as of June 30, 2004, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2006.

	Amount	Percent of Payroll
MSEP		
Change in assumptions	$ 8,166,036	.47%
Experience and nonrecurring items	25,714,326	1.48
ALJLAP		
Change in assumptions	466	.01
Experience and nonrecurring items	(16,294)	(.35)
Judicial Plan		
Change in assumptions	(15,951)	(.04)
Experience and nonrecurring items	514,433	1.29

2005 The actuarial valuations as of June 30, 2005, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2007.

	Amount	Percent of Payroll
MSEP		
Mark to market asset valuation method adjustment	$(10,116,963)	(.56)%
Recognition of state pay freeze on across-the-board increases for FY06	(3,793,861)	(.21)
Experience and nonrecurring items including the addition of the assets and liabilities from the ALJ plan	17,162,705	.95
Judicial Plan		
Mark to market asset valuation method adjustment	28,011	.07
Recognition of state pay freeze on across-the-board increases for FY06	(136,055)	(.34)
Change in amortization factor to reflect the state pay freeze for fiscal year ending June 30, 2006	556,224	1.39
Experience and nonrecurring items	640,258	1.60

2006 The actuarial valuations as of June 30, 2006, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2008.

	Amount	Percent of Payroll
MSEP		
Change to an open 30-year amortization period	$(1,244,094)	(0.07)%
Experience and nonrecurring items	2,310,460	.13
Judicial Plan		
Change to an open 30-year amortization period	(265,786)	(0.66)
Experience and nonrecurring items	334,245	.83

2007 The actuarial valuations as of June 30, 2007, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2009.

	Amount	Percent of Payroll
MSEP		
Change in benefit assumptions or methods	$ (369,329)	(0.02)%
Experience and nonrecurring items	(5,355,266)	(0.29)
Judicial Plan		
Change in benefit assumptions or methods	(273,672)	(0.67)
Experience and nonrecurring items	853,694	2.09

2008 The actuarial valuations as of June 30, 2008, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2010.

	Amount	Percent of Payroll
MSEP		
Change in benefit assumptions or methods	$4,791,318	0.25%
Experience and nonrecurring items	(574,958)	(0.03)
Judicial Plan		
Change in benefit assumptions or methods	(547,873)	(1.23)
Experience and nonrecurring items	(160,353)	(0.36)

2009 The actuarial valuations as of June 30, 2009, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2011.

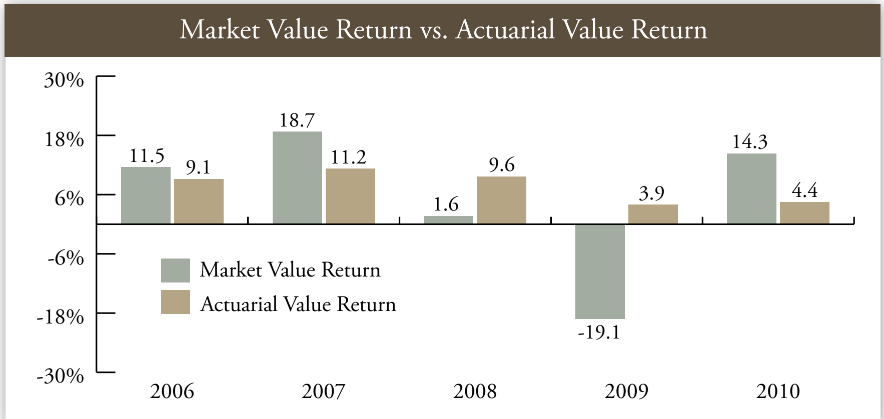
	Amount	Percent of Payroll
MSEP		
State of Missouri general pay freeze	$ (4,405,285)	(0.22)%
Experience and nonrecurring items	55,466,538	2.77
Change in valuation asset corridor from +/-20% to +/-30%	(29,835,791)	(1.49)
Judicial Plan		
State of Missouri general pay freeze	350,392	0.77
Experience and nonrecurring items	496,010	1.09
Change in valuation asset corridor from +/-20% to +/-30%	(141,067)	(0.31)

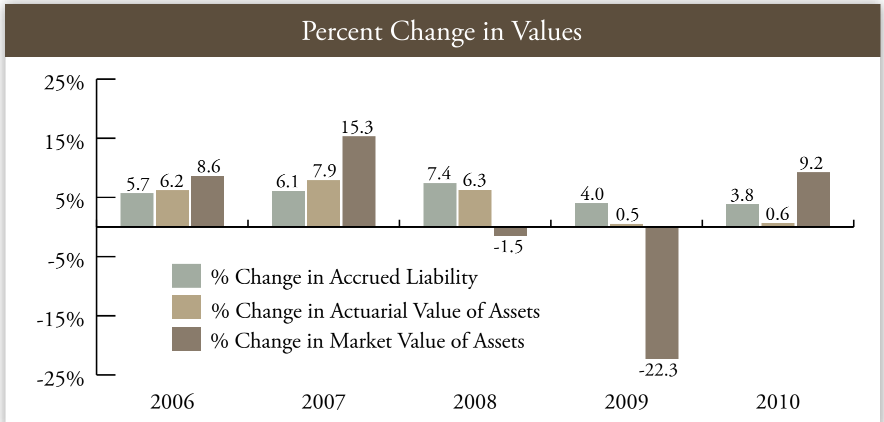
2010 The actuarial valuations as of June 30, 2010, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2012.

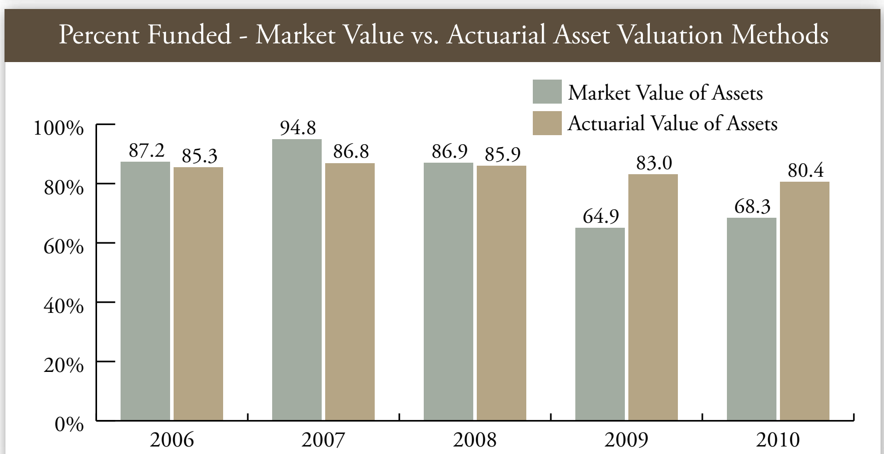
	Amount	Percent of Payroll
MSEP		
State of Missouri general pay freeze	$ (2,528,624)	(0.13)%
Addition of new tier of benefits effective January 1, 2011	(17,311,348)	(0.89)
Experience and nonrecurring items	25,480,749	1.31
Change in methodology of contributions timing between valuation and year of application	(2,528,624)	(0.13)
Judicial Plan		
State of Missouri general pay freeze	(308,955)	(0.67)
Addition of new tier of benefits effective January 1, 2011	(493,406)	(1.07)
Experience and nonrecurring items	438,071	0.95
Change in methodology of contributions timing between valuation and year of application	(894,587)	(1.94)

Actuarial Asset Value Smoothing

The financing objective of the vast majority of public retirement plans is to establish contribution rates and collect contributions which remain relatively level as a percent of active member payroll over decades of time. This concept is sometimes referred to as attempting to achieve intergenerational equity, meaning that future generations will not be expected to pay more or less (in inflation adjusted terms) than the present generation contributes to support the plan.







Some critics of smoothing the actuarial value of assets suggest that pension plans are not providing "transparency" in connection with operations. Actual practice suggests otherwise. The *Statements of Plan Net Assets* and *Changes in Plan Net Assets* in this section are prepared on the basis of market values. Beyond that, all information related to asset values and results of investment activity in the *Investment Section* of this report is prepared on the basis of market values. This is required by the accounting and reporting standards established by the Governmental Accounting Standards Board and by the Government Finance Officers Association's *Guidelines for the Preparation of a Comprehensive Annual Financial Report*. Both organizations have been long standing proponents of transparency in governmental accounting and reporting – public retirement plans commonly subscribe to the dictates of both.

Many public retirement plans have begun to emphasize use of asset classes that, by their nature, tend to be somewhat volatile in market value. This is being done with the objective of increasing long-term investment returns, thus providing increased benefit security for plan participants and lower contribution rates for taxpayers than would otherwise be the case. With market value accounting for contribution rate determination purposes, we could achieve more level contribution rates by employing lower volatility asset classes but the level contribution rate would be much higher than is the case with the higher return expectations we have as the result of taking on asset volatility risk.

For those of us attempting to operate with a long-term time horizon, with contribution rate stability as a key objective, asset smoothing for actuarial purposes is simply a tool. Asset smoothing for actuarial purposes is a practical solution to responsibly achieving intergenerational equity, giving recognition to the fact that market cycles do not coincide with financial reporting periods. The use of the "market related" value established through smoothing simply makes more sense for determining contribution rates than using market value. The bar charts above further illustrate the impact of smoothing volatility in actuarial computations.

Additional Financial Information

SCHEDULES OF INVESTMENT EXPENSES

PENSION TRUST FUNDS – YEAR ENDED JUNE 30, 2010

	MSEP	Judicial Plan	Total
Investing activity			
Investment management and administration fees			
Actis Emerging Markets 3 - private equity	$ 983,211	$ 11,331	$ 994,542
African Development Partners I, LLC - private equity	713,614	8,224	721,838
Alinda Infrastructure Fund I, LP - private equity	246,825	2,844	249,669
AQR Absolute Return Institutional Fund, LP - alpha pool	1,158,336	13,349	1,171,685
AQR DELTA Sapphire Fund, LP - alpha pool	808,435	9,317	817,752
Axiom Asia Private Capital Fund II, LP - private equity	408,804	4,711	413,515
Baillie Gifford EAFE Plus - international equity	85,607	987	86,594
Barclays Global Investors Global Market Neutral Fund - alpha pool	(202,862)	(2,338)	(205,200)
Bayview Opportunity Domestic, LP - high yield	3,328,853	38,363	3,367,216
Bayview Opportunity Domestic, LP - credit opportunities	2,928,380	33,748	2,962,128
Bayview Opportunity Domestic, LP - real estate	2,085,744	24,037	2,109,781
BlackRock Financial Management Bank Loans - high yield	674,473	7,773	682,246
BlackRock Financial Management High Yield - high yield	275,036	3,170	278,206
BlackRock Financial Management Mortgage Opportunity - high yield	262,726	3,028	265,754
Blackstone Distressed Securities Fund, LP - alpha pool	33,493	386	33,879
Blackstone Real Estate Partners V - real estate	1,069,052	12,320	1,081,372
Blackstone Real Estate Partners VI - real estate	1,100,644	12,684	1,113,328
Blackstone Hedged Equity Fund, LP - domestic equity	2,337,275	26,935	2,364,210
Blackstone Topaz Fund, LP - alpha pool	2,088,780	24,072	2,112,852
Blackstone Real Estate Partners IV - real estate	821,165	9,463	830,628
Blakeney Onyx, LP - emerging markets	2,095,555	24,150	2,119,705
Brevan Howard, LP - alpha pool	737,561	8,500	746,061
Bridgewater Associates Diamond Ridge Fund, LLC - alpha pool	2,767,514	31,894	2,799,408
Bridgepoint Europe III A, LP - private equity	150,607	1,736	152,343
Bridgepoint Europe IV B, LP - private equity	665,580	7,670	673,250
Campbell Timber Fund II-A, LP - timber	486,766	5,610	492,376
Catterton Partners V, LP - private equity	1,252,313	14,432	1,266,745
Catterton Partners VI, LP - private equity	474,474	5,468	479,942
CarVal Investors CVI Global Value Fund A, LP - real estate	868,737	10,012	878,749
CarVal Investors CVI Global Value Fund A, LP - private debt	868,737	10,012	878,749
Davidson Kempner Institutional Partners, LP - alpha pool	3,183,251	36,685	3,219,936
DDJ Capital Management B IV Capital Partners, LP - private debt	(1,080,119)	(12,448)	(1,092,567)
Diamondback Partners, LP - alpha pool	247,152	2,848	250,000
DRI Capital LSRC - private equity	337,912	3,894	341,806
DRI Capital LSRC II - private equity	43,061	496	43,557
Elliott International, Ltd. - alpha pool	190,114	2,191	192,305
Eminence Fund, Ltd. - domestic equity	1,485,576	17,120	1,502,696
Eton Park Fund, LP - alpha pool	1,491,058	17,183	1,508,241
Farallon Capital Institutional Partners, LP - alpha pool	2,170,782	25,017	2,195,799
Garnet Sky Investors Co., Ltd. - timber	537,645	6,196	543,841
Global Forest Partners GTI7 Institutional Investors Co. Ltd. - timber	559,736	6,451	566,187
Grantham, May and Van Otterloo & Co., LLC - emerging markets	1,071,445	12,348	1,083,793
Harvest Fund Advisors - real estate	333,027	3,838	336,865
HBK Offshore Fund, Ltd. - alpha pool	966,208	11,135	977,343
Highside Offshore, Ltd. - alpha pool	204,539	2,357	206,896
JLL Partners V, LP - private equity	828,615	9,549	838,164
JLL Partners VI, LP - private equity	2,413,557	27,815	2,441,372
King Street Capital, Ltd. - alpha pool	1,982,231	22,844	2,005,075
Legg Mason Opportunity Trust - domestic equity	642,937	7,409	650,346
Legg Mason Value Trust - domestic equity	308,482	3,555	312,037

Continued on page 54

Schedule of Investment Expenses continued from page 53

	MSEP	Judicial Plan	Total
Leuthold Weeden Capital Management - domestic equity	410,792	4,734	415,526
Mastholm Investment Managers - int'l developed	442,359	5,098	447,457
Merit Energy Partners F-II, LP - real estate	89,220	1,028	90,248
MHR Institutional Partners IIA, LP - private debt	(630,184)	(7,262)	(637,446)
MHR Institutional Partners III, LP - private debt	1,163,403	13,407	1,176,810
Morant Wright Investment Management - int'l developed equity	718,544	8,281	726,825
MOSERS Inc. - alpha pool	62	1	63
New Mountain Partners III, LP - private equity	702,280	8,093	710,373
Nippon Value Investors - int'l developed equity	812,278	9,361	821,639
NISA Investment Advisors, LLC - commodities	732,385	8,440	740,825
NISA Investment Advisors, LLC - beta program emerging markets	16,355	188	16,543
NISA Investment Advisors, LLC - beta program domestic equity	559,366	6,446	565,812
NISA Investment Advisors, LLC - beta program fixed income	492,234	5,673	497,907
NISA Investment Advisors, LLC - beta program international equity	202,286	2,331	204,617
OCM Real Estate Opportunities Fund III, LP - real estate	682,767	7,868	690,635
OCM Opportunities Fund IVB, LP - private debt	(97,709)	(1,126)	(98,835)
OCM/GFI Power Opportunities Fund II, LP - private equity	726,868	8,377	735,245
OCM Opportunities Fund VIIb, LP - private debt	7,603,980	87,630	7,691,610
PAAMCO - Newport Pioneer, LLC - alpha pool	962,575	11,093	973,668
Parish Capital Buyout Fund I, LP - private equity	400,104	4,609	404,713
Parish Capital Buyout Fund II, LP - private equity	383,079	4,415	387,494
Parish Opportunities Fund II, LP - private equity	185,364	2,136	187,500
Resource Management Service Wildwood Timberlands, LLC - timber	5,199,321	59,918	5,259,239
Silchester International Investors - int'l developed equity	2,187,960	25,215	2,213,175
Silver Lake Partners II, LP - private equity	1,143,334	13,176	1,156,510
Silver Point Capital Fund, LP - alpha pool	454,780	5,241	460,021
TPG - Axon Partners (Offshore), Ltd. - domestic equity	768,463	8,856	777,319
TCW Energy Partners, LLC - real estate	1,375,795	15,855	1,391,650
TCW Energy Fund XIV, LP - real estate	1,119,292	12,899	1,132,191
Trust Company of the West - credit opportunities	851,144	9,809	860,953
The Veritas Capital Fund III, LP - private equity	2,020,136	23,281	2,043,417
Viking Global Equities III, Ltd. - domestic equity	2,030,783	23,403	2,054,186
Total investment management fees	83,202,060	958,845	84,160,905
Other investment fees			
Investment consultant fees			
Summit Strategies, Inc.	838,841	9,667	848,508
Investment custodial fees			
Mellon Bank	465,652	5,366	471,018
Partnership fees	1,480	17	1,497
Performance measurement fees			
Mellon Bank	348,939	4,021	352,960
Internal investment activity expenses	3,599,288	41,479	3,640,767
Total investing activity expenses	88,456,260	1,019,395	89,475,655
Securities lending activity			
Securities lending borrower rebates	(526,125)	(6,063)	(532,188)
Securities lending management fees			
Mellon Bank	123,576	1,424	125,000
Credit Suisse First Boston	231,923	2,673	234,596
Total securities lending activity expenses	(170,626)	(1,966)	(172,592)
Total investment expenses	$88,285,634	$1,017,429	$89,303,063

Additional Financial Information

SCHEDULES OF INTERNAL INVESTMENT ACTIVITY EXPENSES

PENSION TRUST FUNDS – YEAR ENDED JUNE 30, 2010

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$2,010,389	$23,167	$2,033,556
Employee fringe benefits	591,146	6,813	597,959
Total personnel services	2,601,535	29,980	2,631,515
Professional services			
Attorney services	584,898	6,741	591,639
Consulting services	75,399	869	76,268
Total professional services	660,297	7,610	667,907
Communications			
Telephone	6,726	78	6,804
Total communications	6,726	78	6,804
Travel and meetings			
Staff travel and meetings	96,823	1,116	97,939
Total travel and meetings	96,823	1,116	97,939
General			
Educational materials	4,968	57	5,025
Office supplies	264	3	267
Subscriptions and dues	228,675	2,635	231,310
Total general	233,907	2,695	236,602
Total administrative expenses	$3,599,288	$41,479	$3,640,767

Additional Financial Information

SCHEDULES OF ADMINISTRATIVE EXPENSES

PENSION TRUST FUNDS – YEAR ENDED JUNE 30, 2010

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$3,497,611	$40,307	$3,537,918
Employee fringe benefits	1,328,252	15,307	1,343,559
Total personnel services	4,825,863	55,614	4,881,477
Professional services			
Actuarial services	265,269	3,057	268,326
Attorney services	275,890	3,179	279,069
Auditing services	43,756	504	44,260
Banking services	24,768	285	25,053
Consulting services	84,265	971	85,236
Total professional services	693,948	7,996	701,944
Communications			
Postage and mailing	188,518	2,173	190,691
Telephone	43,385	500	43,885
Printing	53,879	621	54,500
Video production	2,143	25	2,168
Total communications	287,925	3,319	291,244
Building and grounds			
Depreciation	77,478	893	78,371
Utilities	70,388	811	71,199
Maintenance	50,365	580	50,945
Total building and grounds	198,231	2,284	200,515
Equipment			
Depreciation	132,640	1,529	134,169
Maintenance	215,786	2,487	218,273
Rental	110,550	1,274	111,824
Gain on sale of equipment	44	1	45
Total equipment	459,020	5,291	464,311
Travel and meetings			
Board travel and meetings	37,991	438	38,429
Staff travel and meetings	156,106	1,799	157,905
Vehicle maintenance and operation	6,628	76	6,704
Total travel and meetings	200,725	2,313	203,038
General			
Educational materials	15,934	184	16,118
Office supplies	68,655	791	69,446
Subscriptions and dues	194,168	2,238	196,406
Insurance	118,178	1,362	119,540
Advertising	1,897	22	1,919
Total general	398,832	4,597	403,429
Total administrative expenses	$7,064,544	$81,414	$7,145,958

Additional Financial Information

SCHEDULES OF ADMINISTRATIVE EXPENSES

INTERNAL SERVICE FUNDS – YEAR ENDED JUNE 30, 2010

	Life & LTD	Deferred Compensation	Total
Personnel services			
Salaries	$383,875	$111,378	$495,253
Employee fringe benefits	133,633	24,655	158,288
Total personnel services	517,508	136,033	653,541
Professional services			
Attorney services	572	3,688	4,260
Auditing services	3,050	0	3,050
Banking services	558	417	975
Total professional services	4,180	4,105	8,285
Communications			
Postage and mailing	1,040	16,490	17,530
Telephone	3,419	0	3,419
Video production expense	149	0	149
Total communications	4,608	16,490	21,098
Building and grounds			
Building use charge	7,837	0	7,837
Utilities	4,877	0	4,877
Maintenance	3,505	0	3,505
Total building and grounds	16,219	0	16,219
Equipment			
Equipment use charge	13,474	0	13,474
Maintenance	14,903	0	14,903
Rental	9,751	0	9,751
Total equipment	38,128	0	38,128
Travel and meetings			
Board travel and meetings	2,625	0	2,625
Staff travel and meetings	17,445	3,976	21,421
Vehicle maintenance and operation	453	0	453
Total travel and meetings	20,523	3,976	24,499
General			
Educational materials	1,273	0	1,273
Office supplies	4,624	0	4,624
Subscriptions and dues	4,485	16,500	20,985
Insurance	8,236	0	8,236
Advertising	132	0	132
Total general	18,750	16,500	35,250
Total administrative expenses	$619,916	$177,104	$797,020

Additional Financial Information

SCHEDULES OF PROFESSIONAL/CONSULTANT FEES

YEAR ENDED JUNE 30, 2010

		Pension Trust Funds			Internal Service Funds		
Professional/Consultant	**Nature of Service**	**MSEP**	**Judicial Plan**	**Total**	**Life & LTD**	**Deferred Compensation**	**Total**
Operation administrative expenses							
Avtex Solutions LLC	Phone system consulting	$ 1,072	$ 12	$ 1,084	$ 0	$ 0	$ 0
CBIZ Benefits & Insurance Services, Inc.	Human capital services	21,305	245	21,550	0	0	0
Central Bank	Banking	24,768	285	25,053	558	417	975
Charlesworth & Associates	Risk management consulting	7,229	83	7,312	0	0	0
Claire West Consulting	Governmental pension consulting	5,446	63	5,509	0	0	0
Columbia Integrated Technologies	Information technology consulting	182	2	184	0	0	0
Gabriel, Roeder, Smith & Co.	Actuarial	265,270	3,057	268,327	0	0	0
Gamble & Schlemeier, Ltd.	Governmental pension consulting	26,774	309	27,083	0	0	0
Huber & Associates, Inc.	Information technology consulting	10,147	117	10,264	0	0	0
Kramer & Frank, P.C.	Legal counsel	247	3	250	0	0	0
McLagan Partners, Inc.	Human resources consulting	12,110	140	12,250	0	0	0
Steptoe & Johnson LLP	Legal counsel	26,096	301	26,397	0	0	0
Thompson Coburn LLP	Legal counsel	249,546	2,875	252,421	572	3,688	4,260
Williams Keepers LLC	Financial audit	43,756	504	44,260	3,050	0	3,050
Operation administrative expenses subtotal		693,948	7,996	701,944	4,180	4,105	8,285
Internal investment administrative expenses							
CT Corporation System	Statutory representation	611	7	618	0	0	0
Investment Training and Consulting Institute, Inc.	Audit services	62,678	722	63,400	0	0	0
McLagan Partners, Inc.	Human resources consulting	12,110	140	12,250	0	0	0
Thompson Coburn LLP	Legal counsel	584,863	6,741	591,604	0	0	0
United States Treasury	Statutory representation	35	0	35	0	0	0
Internal investment administrative expenses subtotal		660,297	7,610	667,907	0	0	0
Total professional/consultant fees		$1,354,245	$15,606	$1,369,851	$4,180	$4,105	$8,285

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 53-54.

Additional Financial Information

INVESTMENT SUMMARY

PENSION TRUST FUNDS – YEAR ENDED JUNE 30, 2010

Type of Investment	June 30, 2009 Cost Value	June 30, 2009 Fair Value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2010 Cost Value	June 30, 2010 Fair Value	Percent of Total Fair Value
Fixed income							
Treasury bonds, notes, and bills	$ 776,316,193	$ 815,705,766	$ 91,541,076	$ (105,858,641)	$ 761,998,628	$ 838,787,993	14%
Government bonds and gov't mortgage-backed securities	64,718,741	64,539,251	7,493,423	(34,333,682)	37,878,482	37,757,077	1
Corporate bonds	172,415,207	156,852,135	71,704,539	(119,432,637)	124,687,109	123,436,648	2
Convertible bonds	4,057,400	4,329,142	1,703,348	(2,955,532)	2,805,216	3,232,719	0
Collateralized mortgage obligations	98,023,709	108,751,920	140,598,964	(133,640,060)	104,982,613	106,322,010	2
International corporate bonds	40,212,722	14,906,766	7,874,110	(11,076,997)	37,009,835	12,773,664	0
Bank loans	185,647,129	168,439,460	13,525,960	(110,237,064)	88,936,025	87,268,972	1
Total fixed income	1,341,391,101	1,333,524,440	334,441,420	(517,534,613)	1,158,297,908	1,209,579,083	20
Common stock	682,229,129	590,861,097	398,387,312	(182,483,920)	898,132,521	839,700,818	14
Preferred stock	0	0	11,853,018	(2,978,088)	8,874,930	7,962,150	0
International investments							
International equities	567,512,018	839,627,824	269,663,337	(305,719,639)	531,455,716	818,029,616	13
Foreign currency	6,623,531	6,183,752	53,733,136	(56,249,157)	4,107,510	4,050,737	0
Total international investments	574,135,549	845,811,576	323,396,473	(361,968,796)	535,563,226	822,080,353	13
Real estate investment trusts	1,215,569	1,212,714	0	(1,215,569)	0	0	0
Venture capital limited partnerships	2,535,837,655	2,873,401,682	645,151,338	(515,182,195)	2,665,806,798	3,319,969,737	53
Investments (per *Statements of Plan Net Assets* page 27)	5,134,809,003	5,644,811,509	1,713,229,561	(1,581,363,181)	5,266,675,383	6,199,292,141	100%
Short-term investments							
Short-term investment funds	608,718,714	608,718,714	748,857,089	(751,075,775)	606,500,028	606,500,028	
Repurchase agreements	440,603	440,603	161,707,627	(161,614,765)	533,465	533,465	
Total short-term investments	609,159,317	609,159,317	910,564,716	(912,690,540)	607,033,493	607,033,493	
Invested securities lending collateral							
Corporate bonds	327,699,674	271,489,250	31,925,319	(282,281,229)	77,343,764	67,660,518	
Short-term investment funds	113,787,663	113,787,663	10,023,510,935	(10,012,318,944)	124,979,654	124,979,654	
Total invested securities lending collateral	441,487,337	385,276,913	10,055,436,254	(10,294,600,173)	202,323,418	192,640,172	
Total investments	$6,185,455,657	$6,639,247,739	$12,679,230,531	$(12,788,653,894)	$6,076,032,294	$6,998,965,806	

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS office.

Additional Financial Information

INVESTMENT SUMMARY

INTERNAL SERVICE FUNDS – YEAR ENDED JUNE 30, 2010

	June 30, 2009				June 30, 2010		
Type of Investment	**Cost Value**	**Fair Value**	**Purchases and Capital Additions at Cost**	**Sales and Redemptions at Cost**	**Cost Value**	**Fair Value**	**Percent of Total Fair Value**
Repurchase agreements	$2,642,046	$2,642,046	$662,791,899	$(662,330,872)	$3,103,073	$3,103,073	100%

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS office.

COLLABORATION

Finding balance and keeping momentum is important to a new generation embarking upon retirement. Enduring the hilly landscape of today's economy is difficult but a challenge worthwhile. MOSERS is geared toward achieving long-term stability for members as they begin their journey towards a satisfying retirement.

Every milestone presents a new opportunity

INVESTMENT SECTION

CHIEF INVESTMENT OFFICER'S REPORT

MOSERS
Missouri State Employees' Retirement System

Mailing Address
PO Box 209 • Jefferson City, MO 65102-0209

Building Location
907 Wildwood Drive • Jefferson City, MO

October 21, 2010

Dear Members:

It is my pleasure to present to you the *Investment Section* of the MOSERS *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2010. As of this report, your pension fund has total assets of $6.8 billion. During the year, the investments generated $870 million in earnings.

MOSERS' investment management practices are geared toward achieving long-term stability to assure that retirement benefits promised you by the state of Missouri are secure and will be paid at the lowest possible cost to the taxpayers. Whether relative to our actuarial assumed rate, our internal benchmarks, or our peers, FY10 was a strong year for the MOSERS investment program. Following are a few of the highlights for the fiscal year just ended:

- MOSERS' investment return for the fiscal year was 14.3% (net of fees and expenses), which compared very favorably to the actuarially assumed rate of 8.5%. This will help to reduce future contributions from the state of Missouri.
- This year's performance exceeded the policy benchmark return by 0.94%, generating an additional $49 million above what would have been earned had the portfolio been invested passively. This marked the tenth straight fiscal year that our investment returns have exceeded our policy benchmark.
- At the broad asset class level, returns were distributed fairly evenly — public equities produced 14.3%, public debt portfolio generated 14.8%, alternatives produced 11.8%.
- Over the 15-year period ended June 30, 2010, the portfolio has generated performance of 1.3% per year in excess of the policy benchmark, which translates into approximately $1.2 billion of additional earnings above what would have been earned had the portfolio been invested passively. Similarly, strong excess returns exist for the 5- and 10-year periods as well.
- Over the 15-year period ended June 30, 2010, the portfolio's performance has exceeded 95% of our peers as defined by the Rogerscasey universe of public pension plans with assets in excess of $1 billion. Similarly, strong peer comparisons exist for the 5- and 10-year periods as well.

2010 Market and Performance Review

There were two very distinct periods in the 2010 fiscal year. The first nine months of the year were characterized by a broad view that the global economy was recovering (more slowly than average coming out of recession) but recovering none the less. This view was very positive for battered down "risky" assets in general, and stocks in

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particular. In fact, over that nine-month time-frame the world equity markets were up over 27%, with small-cap stocks and emerging markets stocks (those perceived to be the most risky) up over 34%. However, by the end of the third quarter of our fiscal year (March 31) new storm clouds started to appear on the horizon in the form of PIIGS. For those not up on financial markets' acronyms, PIIGS stands for Portugal, Italy, Ireland, Greece and Spain. The ugliest of the litter, Greece, was finding it harder and harder to roll over its debt as investors became concerned about its ability to make good on its IOUs. This, in turn, was leading to market skittishness regarding how many of those IOUs lay hidden inside European banks. European banks had not been through rigorous stress tests like U.S. banks and, as a result, uncertainty and fear reemerged in April as investors struggled with what a default of one of the European Union members might mean for the euro currency and, more broadly, for a weak global economy. With this as the backdrop, investors, not wishing to relive 2008 moved quickly to reduce investments in "risky" assets. Over the last three months of the fiscal year, world equity markets lost over 12%, giving back over half of the preceding nine months of gains.

While the markets whipsawed during the fiscal year, we positioned the MOSERS portfolio to remain consistently defensive relative to our benchmark. While pleased that the markets were trading higher during the first three quarters, it seemed unlikely that all of the structural headwinds that nearly pushed the global economy into an abyss less than a year earlier, could have been totally eliminated with the magic of a federal government printing press, the home buyer's tax credit and, "cash for clunkers." Nonetheless, by the end of March, the MOSERS portfolio was lagging the benchmark by over 3.6%. However, as market optimism swung to pessimism starting in late April, the portfolio began to outperform the market benchmark. For the last quarter of the fiscal year, while equities were down over 12%, our portfolio fell only 2.7% and solidly outpaced the benchmark, which fell 6.3% during the quarter. The end result for the entire year was a fiscal year return of 14.3% for the portfolio, outpacing the policy benchmark which returned 13.4%.

Traversing the Ever-Changing Financial Landscape

In 2002, the board made a decision to head down a road less traveled by other institutional investors. That road involved reducing the portfolio's equity exposure and replacing that exposure with various forms of alternative investments including hedge funds, timberland, distressed debt, real estate, and private equity. We believed at the time, and stated with passion, that stocks were not priced to produce returns in excess of the aggregate of these alternatives, and therefore, it made little sense to concentrate such a large majority (at the time, as much as 75%) of MOSERS' assets and risk in the public equity asset class.

By 2010, investors of all types have turned the road less traveled into an interstate highway. A Cost Effectiveness Measurement (CEM) study at the end of 2001 revealed that the average public pension fund had 61% of their assets in stocks, 32% in fixed income and cash, and 7% in alternative investments. Today, a similar CEM study identified those asset class averages to be 48%, 32%, and 20%, respectively. Without question, the trend in the recent past has been to reduce equity exposure and increase everything else but equities. The mind set has indeed changed.

Preparing for New Opportunities (or maybe the same old ones revisited)

As the trend toward lower equity exposure continues, investors shouldn't lose sight of one of our core investment beliefs: that "asset classes will be in and out of favor at different times and they all tend to be cyclical, thus flexibility is key." Simply stated, no investment offers the birthright of a high return; the price one pays for the

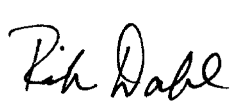
investment must be considered. At some point, stock prices will become sufficiently cheap (because prices have fallen and/or because earnings have increased) and alternatives and fixed income prices will become sufficiently expensive to the point that their diversification benefits are overwhelmed by the return potential of stocks. This is no different than the condition that existed at the end of the 1990s, except that at the end of the 1990s the expensive asset was stocks and now the expensive assets are everything else. So, while the average investor continues to move away from stocks, it's quite possible that the savvy investor should be focused on increasing equity exposure, knowing that the day will come when the average investor will be willing to pay him a lot more for equities than he paid for them. The $64,000 question is where are we currently in the long-term equity cycle?

The answer to the question is not straightforward. On one hand, I think we must ratchet down our expected returns for all asset classes including equities because of an aging population, high debt levels and what they both imply for future economic growth. Debt reduction is deflationary at its very core and while corporations have aggressively cut costs using the savings to pay down debt and build cash levels, without the consumer to buy the end product we should not expect strong earnings growth. With that said, equities appear fairly valued to marginally cheap to me at current levels and, just as important, several alternative investments and fixed income investments appear priced to perfection. Is it possible that the best thing for investors to be doing right now, at the margin, is to be moving money back into global large-cap household names with solid balance sheets and relatively stable earnings? I think the answer is yes, it's very possible and getting more so all the time.

Let me further explain. At the beginning of the decade of the 2000s, the price earnings ratio (P/E) of the S&P 500 stood at about 30, well above the historical long-term average of 15. By the end of the decade, the economy had witnessed two recessions and stock prices had fallen about 24%. While prices were down by 24%, ironically, earnings had risen by about the same 24%. The resulting P/E at the end of the decade (12/31/09) was about 18. By 6/30/2010, prices had fallen another 7.5%, while earnings had risen further, bringing the current P/E (based on the last four quarters of reported earnings) down to about 15. We still have a ways to go for stocks to be the bargain they were at the beginning of the 1980s (on 12/31/79 the P/E of the S&P 500 was 7.5). However, some of the out-of-favor sectors like health care and energy are starting to look appealing to us. The bottom line is, no one knows when marginal selling will once again turn into marginal buying, but it will happen and we believe that day may very well be closer than the majority of investors believe. Remember, markets are cyclical and opportunity lies ahead for those willing to do their homework and be contrarian.

In closing, I would like to thank the ultimate fiduciaries of MOSERS, the board of trustees for their willingness to embrace a governance structure that allows the MOSERS investment program to "break away" from the pack. While there is perceived safety in the pack, by definition it is destined to produce average returns. Average is simply unacceptable when your future financial security is at stake.

Until next year,



Rick Dahl
Chief Investment Officer

INVESTMENT CONSULTANT'S REPORT

Summit Strategies Group

October 21, 2010

The Board of Trustees
Missouri State Employees' Retirement System
907 Wildwood Drive
Jefferson City, MO 65109

Dear Board Members,

When I was told this year's CAFR would show pictures of old and new things, my immediate fear was a request for my high school year book picture! Luckily, that request never came.

"Something old, something new, something borrowed, something blue." I have no idea what this means or why it exists, except that your bride is always "new," probably because the other three are not attributes you seek on your wedding day. But it does have some relevance to this year's annual letter, if we break it into equal parts.

"Something old, something new" – As long as "old" refers to FY09 results and "new" refers to FY10 results, I'm all for this one! As opposed to last year's letter describing the worst financial crisis to hit the world in 80 years and an investment return of -19%, this year's letter can express some relief that risk assets "rebounded" off of their very low lows of 2008 and the first quarter of 2009 to recover much of the loss with a return for FY10 of 14.3%. This translates into a recovery of nearly $1 billion of portfolio value in 12 months. While not back to 2007 highs, it's at least nice to see strong absolute results for the year. All risk assets showed very strong results for the period as investors came to agree that "the world is ending" prices of risk assets were overly pessimistic and bid prices back up to the "we've still got a lot of work and a long way to go" prices.

Most of the "Armageddon" avoidance was accomplished by massive, coordinated global central bank and government responses to throw in everything available to "keep the patient" alive. This was great for the financial market in the 12 month "rebound," but we are now seeing dramatic market swings into, and out of, risky assets depending on the most recent sign that the economy is either recovering or struggling. In my opinion, the reason for the market jitters is the dawning realization that all of the developed world "stimuli" was created with borrowed money and the race is now on to, hopefully, get back to prosperity before the debts come due.

8182 Maryland Avenue, 6th Floor • St. Louis, Missouri 63105 • 314.727.7211, 314.727.6068 (fax)

"Something borrowed, something blue" – Borrowing, or more specifically, too much debt, is what got the world into this mess and it defies logic to assume that more debt will get us out of the mess. Therefore, while we love the FY10 results, we realize that the long-term challenges we spoke of last year are every bit as real as we thought they'd be last year. Our brightest hope is that the developed world economies return to prosperity and prosperity coupled with some good old fiscal "belt tightening" will allow us to pay down the debts we owe and return to "normal." This is a long process of austerity that does not bode well for investors in risk assets. A less attractive outcome, and one that is already happening, is the destruction of massive amounts of bad debt, such as inflated mortgages, bank loans, consumer and corporate loans. Not the best environment for investors in risk assets. It is news that can make you "blue."

However, we can't simply sit around on our hands (i.e., cash) waiting for the pain to go away and then sweep in and pick up bargains. We need to earn a real return of 5% (that's after inflation) to keep up with the liabilities. If the broad markets can't generate these levels of returns then it needs to come from somewhere else. If it isn't the investment portfolio, it's the taxpayer. So together with the MOSERS investment staff, we try to add value, at the margin of 1% to 2% per year, to what the market returns. Each 1% incremental return means $68 million dollars coming from the portfolio and not the taxpayer. And I'm pleased to report that FY10 saw this level of relative outperformance and that number increases over the 3-, 5-, 7-, and 10-year periods. In fact, the return generated by the MOSERS portfolio for 10 years is 4.9% versus a policy benchmark of 2.6%. If you assume the average fund value for the decade was $6 billion, the incremental return of 2.3% annually results in over $750 million of value-added results, and also makes MOSERS the top performing large public fund in the country.

We believe opportunities exist in emerging economies, which have very different economic environments than the developed world. Additionally, there will be investment opportunities based on a contrarian mind-set and the recognition that many pressured owners of assets will be forced to sell based on their particular circumstance. We will be focusing our attention and efforts on those opportunities.

Sincerely,

Stephen P. Holmes, CFA
President

INVESTMENT POLICY SUMMARY

Guiding Principles

Critical to the financial security of present and future benefit recipients is the effectiveness and efficiency of the system's asset management program. The MOSERS Board of Trustees, charged with the responsibility for investing the assets of the system in a manner consistent with fiduciary standards set forth in the prudent person rule, has adopted the following fundamental principles to guide all investment-related decisions:

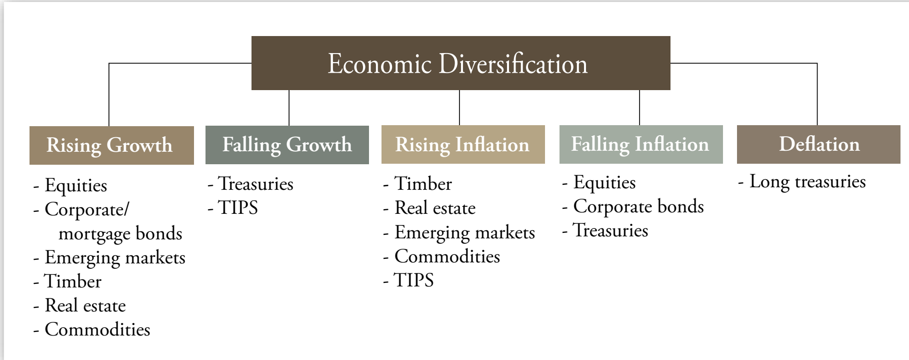
- Preserve the long-term corpus of the fund.
- Maximize total return within prudent risk parameters.
- Act in the exclusive interest of the members of the system.

The investment policy summary serves as a reference point for management of system assets and outlines MOSERS' investment philosophy and practices.

Investment Objective

In keeping with the three guiding principles, the board has adopted the following broad investment objectives:

- Develop a real return objective (RRO)[1] that will:
  - Keep contribution rates reasonably level over long periods of time, absent changes in actuarial assumptions.
  - Maintain contribution rates consistent with historical levels ranging from 8% to 12% of covered payroll.



- Establish an asset allocation policy that is expected to meet the RRO over long periods of time, while minimizing volatility.
- Minimize the costs associated with implementation of the asset allocation through the efficient use of internal and external resources.

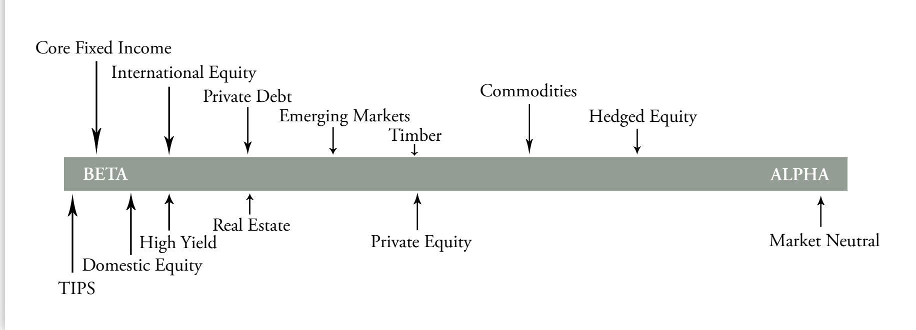
Investment Beliefs

MOSERS' internal investment staff and external asset consultant have arrived at investment beliefs, which are the foundation for implementation of the investment portfolio to achieve the board's objectives. These beliefs help to form the basis of every decision made within MOSERS' portfolio. They are the fundamental concepts underlying the MOSERS' investment program. These beliefs are as follows:

- **Diversification is critical because the future is unknown.** MOSERS' investment portfolio has been built upon the premise that very little is known about what the future holds and, as a result, the portfolio is structured to combat a variety of economic outcomes. As a result, the portfolio will have significant diversification to provide risk reduction in a variety of markets. The chart above reflects the various economic environments and the types of investments that should be expected to perform well in those environments.
- **Every investment should be examined in the context of the two distinct return components – beta and alpha.** Beta is the return which is expected to be earned by investing passively within a specific asset class. Exposures to beta can be purchased very cheaply and, over long periods of time, it is expected that returns from beta should be positive and coincide with the risk associated with a given asset class. In contrast, alpha is the return generated through a manager's ability to select particular investments that perform better than the asset class as a whole. Alpha is a zero-sum game. For every winner, there is a loser on the other side. Historically, MOSERS' portfolio has been heavily weighted towards investments that provided mainly beta returns. MOSERS

[1] The RRO is the rate by which the total return exceeds the inflation rate as measured by the CPI, U.S. City Average for all Urban Consumers (CPI-U). MOSERS' real return is the excess return over the CPI utilizing the formula: Real = (1+Nominal) ÷ (1 + CPI). As of June 30, 2010, the RRO was 5.3%.

Continuum of Beta vs. Alpha Components



made a decision in 2002, after a formal asset/liability study, to place a greater emphasis on generating alpha returns within the portfolio. At that time, it was expected that returns strictly from beta would not generate the returns necessary to fund the liabilities of the system. That decision was confirmed in the most recent formal asset/liability study completed in July 2007. As reflected in the chart above, several alpha-generating strategies are in place within the portfolio today.

- **Asset classes will be in and out of favor at different times and they all tend to be cyclical, thus flexibility is key.** This belief acknowledges that economies are cyclical; thus, it is only logical that certain investments will fair better than others depending upon the current economic environment. In order to make a "good" investment, the price one pays for an investment must be considered. No investment offers the birthright of a high return. In order to capitalize on potential opportunities that may arise due to asset classes being "cheap" or "expensive" relative to their historical norms, the board has granted the CIO the ability to make strategic sub-asset class allocation decisions subject to predefined ranges.
- **Management of system assets is not about risk or return.** It's about risk-adjusted returns with a long-term focus on the liabilities. While it is easy to focus all attention on the returns a portfolio is able to generate, the risks relative to the liabilities of the system must be taken into consideration. Despite MOSERS' infinite time horizon, it must not be overlooked that there are benefits to be paid in the short run. In addition, the "cost of volatility" within the portfolio must not be underestimated as volatility has a dramatic impact on the contribution rate and thus the state's ability to fund the plan going forward.

Roles and Responsibilities

Board of Trustees

The board of trustees bears the ultimate fiduciary responsibility for the investment of system assets. Members of the board must adhere to state law and prudent standards of diligence with respect to their duties as investment fiduciaries. Accordingly, they are required to discharge their duties in the interest of plan participants. They must also "act with the same care, skill, prudence, and diligence under prevailing circumstances that a prudent person, acting in a similar capacity and familiar with those matters, would use in the conduct of a similar enterprise with similar aims."[2] Specifically related to investments, the board is charged with the duties of establishing and maintaining broad policies and objectives for the investment program along with the recommendations of staff and the external asset consultant.

Executive Director

The executive director is appointed by and serves at the pleasure of the board. The board has given the executive director broad authority for planning, organizing, and administering the operations and investments of the system under broad policy guidance from the board. Specifically with regard to investments, the executive director is broadly responsible for the oversight of the investment program. The executive director must ensure the system assets are invested in accordance with the board's policies and that internal controls are in place to safeguard system assets. The executive director must also certify that all manager hiring and termination decisions were made in accordance with the board's governance policy. In addition, the executive director certifies strategic allocation decisions made by the CIO and external asset consultant.

[2] Section 105.688, RSMo - Investment Fiduciaries, Duties.

Chief Investment Officer and Internal Staff

The CIO serves at the pleasure of the executive director, yet has a direct line of communication with the board on investment-related issues. The CIO has primary responsibility for the overall direction of the investment program. The CIO works with the external asset consultant and executive director in advising the board on policies related to the investment program. The CIO has primary responsibility to make hiring and termination decisions related to money managers with the approval of the external asset consultant. The CIO is also charged with the responsibility of making strategic allocation decisions with the approval of the external asset consultant. Other responsibilities of the CIO include monitoring the investment of system assets, oversight of external money managers and the internally managed portfolios, and keeping the board apprised of situations which merit their attention. The internal investment staff is accountable to the CIO.

External Asset Consultant

Summit Strategies Group of St. Louis, Missouri serves as the system's external asset consultant. The external asset consultant serves at the pleasure of the board. The primary duties of the external asset consultant are to:

- Advise the board on policies related to the investment program.
- Provide a third-party perspective and level of oversight to the system's investment program.

The external asset consultant must also approve all manager hiring and termination decisions and strategic allocation decisions made by the CIO. The external asset consultant also provides advice and input to the CIO and internal investment staff on investment-related issues and money manager searches.

Chief Auditor

The chief auditor reports directly to the executive director and, if in the opinion of the chief auditor circumstances warrant, may report directly to the board. The chief auditor is independent of the system's investment operations and, among other things, is responsible for providing objective audit and review services for the investment operations. It is the chief auditor's objective to promote adequate and effective internal controls at a reasonable cost, which results in suggested improvements that will lead to economies and efficiencies in the system's investment operations.

Master Custodian

Bank of New York Mellon serves as the master custodian of the system's assets except in cases where investments are held in partnerships, commingled accounts, or unique asset classes where it is impossible for them to do so. The master custodian is responsible for maintaining the official book of records, providing performance reports, and serving as an additional layer of risk control in the safekeeping of system assets.

Asset Allocation

Determining the system's asset allocation is regarded as one of the most important decisions in the investment management process. The board, with advice from staff and the asset consultant, has developed a policy asset allocation that is designed to achieve the long-term required return objectives of the system, given certain risk constraints. The current asset allocation reflects the need for a diversified portfolio, which will perform well in a variety of economic conditions and will help reduce the portfolio's overall volatility. In determining the optimum mix of assets, the board considers five factors:

- The expected rate of return for each asset class.
- The expected risk of each asset class.
- The correlation between the rates of return of the asset classes.
- The investment objectives and risk constraints of the fund.
- The impact of the portfolio's volatility on the contribution rate.

The policy benchmarks and policy allocation as of June 30, 2010, are illustrated in the table at the top of the following page.

While the board maintains a set policy allocation mix, they have taken steps to provide flexibility by granting authority to the CIO, with the approval of the external asset consultant and certification of the executive director, to make strategic allocation decisions based upon expectations for each sub-asset class. This flexibility has allowed the system to take advantage of changing market conditions. The board has placed ranges on the sub-asset class allocations in order to maintain appropriate risk controls. These ranges are included in the table at the top of the following page.

MOSERS' Asset Allocation

Asset Class	Policy Weight	Allocation Range	Policy Benchmark
Public Equity	**45.0%**		**MSCI ACWI**
Domestic	Benchmark weight*	+/- absolute 10%	
Int'l developed	Benchmark weight*	+/- absolute 10%	
Emerging markets	Benchmark weight*	+/- absolute 5%	
Public Debt	**30.0%**		**Blended Return**
Core fixed income	10.0%	5.0% - 15.0%	Barclays Aggregate
TIPS	10.0%	5.0% - 15.0%	Barclays TIPS
High yield	5.0%	0.0% - 10.0%	Barclays High Yield
Market neutral	5.0%	0.0% - 10.0%	T-Bills + 4%
Alternatives	**25.0%**		**Blended Return**
Real assets	15.0%	10.0% - 20.0%	Blended Return**
Commodities	3.0%		GSCI
Timber	6.0%		NCREIF Timberland
REITs/private RE	6.0%		Wilshire REITs
Private investments	10.0%	5.0% - 15.0%	S&P 500 + 3%
Private equity	7.5%		
Private debt	2.5%		

* The public equity sub-asset class target allocations are not static weights. The weights float based upon capitalization of the MSCI ACWI benchmark.

** The policy benchmark is based upon the blending of GSCI, NCREIF Timberland, and Wilshire REITs at their policy benchmark weights.

Rebalancing

It is the responsibility of staff to ensure that the asset allocation adheres to the system's rebalancing policy. Staff has engaged NISA Investment Advisors, LLC of St. Louis, Missouri, to assist in the oversight and implementation of the rebalancing policy. MOSERS utilizes a combination of cash market and exchange traded futures transactions to maintain the total fund's allocation at the broad policy level. Month-end reviews are conducted to bring the portfolio back within allowable ranges of the broad policy targets.

Risk Controls

MOSERS' investment program faces numerous risks; however, the primary risk to MOSERS is that the assets will not support the liabilities over long periods of time. In order to control this risk and numerous other risks that face the system, the board has taken the following steps, on an ongoing basis, to help protect the system:

- Actuarial valuations are performed each year to ensure the system is on track to meet the funding objectives of the plan. In addition, every five years an external audit of the actuary is conducted to ensure that the assumptions being made and calculation methods being utilized are resulting in properly computed liabilities.
- Asset/liability studies are conducted at least once every five years. The purpose of these studies is to ensure that the current portfolio design is structured to meet the system's liabilities. During these studies, investment expectations are also reexamined in more detail.
- A governance policy, which incorporates investment limitations, is in place to ensure that board policies are clearly identified. Within these documents, the desired outcomes are identified, responsibilities for individuals are identified in relation to particular areas of the portfolio's management, and details are provided as to how outcomes will be measured. Reporting requirements are clearly identified to ensure appropriate checks and balances are in place. In addition, annual performance audits are conducted to ensure the performance measurement tools and methodologies being utilized are proper.

Performance Objectives and Monitoring Process

Generating returns net of expenses equaling the RRO of 5.3% plus inflation remains the primary performance objective for the total fund over the long term. The reason for the long-term focus on this objective is to preclude the temptation to overreact to events in the marketplace that have no relevance in the management of the relationship between the system's assets and liabilities. The resulting dilemma is the conflicting need to evaluate investment policy implementation decisions over shorter time frames while maintaining the longer-term focus necessary to manage and measure the fund's performance relative to the RRO. To address

this problem, the board evaluates performance relative to policy and strategy benchmarks. This helps to evaluate the board's broad policy decisions and the staff and external consultant's implementation decisions. Policy benchmarks measure broad investment opportunities of each sub-asset class in which MOSERS has chosen to invest. The strategy benchmarks represent decisions made by the CIO to strategically deviate from the policy asset allocation for each sub-asset class. The return of the strategy benchmarks are determined based upon the actual weight of the asset class multiplied by the appropriate benchmark.

The policy and strategy benchmarks are used in the following manner to evaluate decisions made by the board and staff:

- **Board Decisions:** The value added through board policy decisions is measured by the difference between the total fund policy benchmark return and the RRO. This difference captures the value added by the board through their policy asset allocation decisions relative to the return necessary to fund the system's liabilities. A policy benchmark return greater than the RRO reflects value added through board decisions. A policy benchmark return less than the RRO reflects losses or shortfalls in performance in funding the liabilities. These policy decisions are measured over long periods of time.
- **CIO and External Asset Consultant Decisions:** There are two components to decisions made by the CIO and external asset consultant, which are monitored by the board on an ongoing basis. They are 1) strategic sub-asset class allocation decisions, and 2) implementation decisions.

Strategy decisions are sub-asset class allocation choices made by the CIO with the approval of the external asset consultant and the certification of the executive director to deviate from the policy benchmark weight. The value added through these decisions to overweight or underweight these sub-asset classes is measured by the difference between the strategy benchmark return and the policy benchmark return. This difference captures the value added by the CIO through sub-asset class strategic decisions relative to the board's broad policy allocation decisions. A strategy benchmark return greater than the policy benchmark return reflects value added through the sub-asset class allocation decisions. A strategy benchmark return less than the policy benchmark return reflects losses to the fund's performance based upon strategy decisions. Strategy decisions should be measured over all periods of time with majority weight placed on outcomes that have occurred over a market cycle.

Implementation decisions are money manager selection choices made by the CIO with the approval of the external asset consultant and the certification of the executive director that the decision was made in accordance within the board's adopted governance policy. The value added through these decisions is measured by the difference between the actual portfolio return and the strategy benchmark return. This difference captures the value added through these external manager selection decisions. An actual portfolio return greater than the strategy benchmark return reflects value added through these external manager selection decisions. An actual portfolio return less than the strategy benchmark return reflects losses to the fund's performance based upon implementation decisions. Implementation decisions should be measured over all periods of time with a majority weight placed on outcomes that have occurred over a market cycle.

The board receives performance information on a quarterly basis to help ensure adequate monitoring of the fund's overall performance objectives.

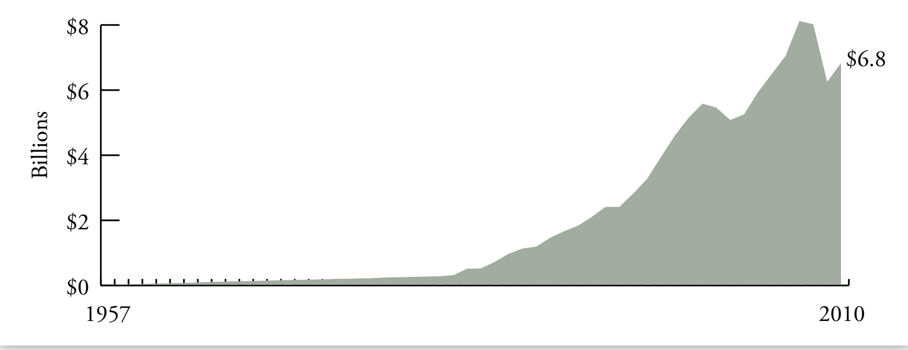
Asset Classes

At the broad asset class level, policy and strategy benchmarks have been established to measure board, strategic, and implementation decisions. At the manager level, performance is measured against appropriate benchmarks for each particular investment mandate. Investment guidelines have been established for each manager outlining specific expectations for each portfolio. Many managers are employed with performance-based fee structures, which help to align the manager's interest with the total fund objectives.

TOTAL FUND REVIEW

As of June 30, 2010, the MOSERS investment portfolio had a market value of $6.8 billion. The graph to the right illustrates the growth of MOSERS' portfolio since the system's inception.

Total Fund Growth



Investment Performance

MOSERS' investments generated a return of 14.3% (net of fees) for FY10. The total fund return exceeded its policy benchmark of 13.4%. Performance across asset classes varied during the year with emerging market equities generating some of the highest returns within the portfolio overall. The public equity portfolio returns were 14.3%, the public debt portfolio returns were 14.8%, and the alternatives portfolio produced results of 11.8%. The table to the right illustrates each sub-asset classes' contribution to the total return. This fiscal year alone, the MOSERS investment portfolio generated $870 million to the fund.

Sub-Asset Class Returns for Fiscal Year Ended June 30, 2010

Asset Class	Fiscal Year Return	Contribution to Total Return
Total public equity	**14.3%**	**7.0%**
Domestic equity	15.1	3.1
International developed equity	10.2	1.8
Emerging markets	22.8	1.1
Credit opportunities	19.9	1.1
Total public debt	**14.8%**	**4.3%**
Core fixed income	19.3	1.3
TIPS	10.1	1.1
High yield bonds	22.0	1.2
Market neutral	11.6	0.7
Total alternatives investments	**11.8%**	**2.8%**
Real assets	7.4	1.1
Commodities	8.7	0.1
REITS	17.9	1.1
Timber	(2.2)	(0.1)
Private investments	19.3	1.7
Private equity	20.2	1.0
Private debt	18.1	0.7
Cash and securities lending	N/A	0.3
Total fund	**14.3%**	

Investment Performance vs. the Required Rate of Return

The first measure of comparison for the portfolio's investment performance is to determine how well the fund performed relative to the required rate of return. The RRO is the rate established by the board that MOSERS' investment portfolio must earn in order to meet future plan obligations after accounting for inflation. The funding objective is to produce a return that equals the RRO (5.3%) plus inflation. The best known measure of inflation is the Consumer Price Index (CPI).[3] The review of long periods of time is best for purposes of examining fund performance relative to the required rate of return. Given the unpredictability of the investment markets, the portfolio should not be expected to always meet the required rate of return in the short-term. A review of long periods of time is best to evaluate whether or not the total return has kept pace with the system's funding objectives.

[3] CPI Source: United States Department of Labor, Bureau of Labor Statistics (not seasonally adjusted).

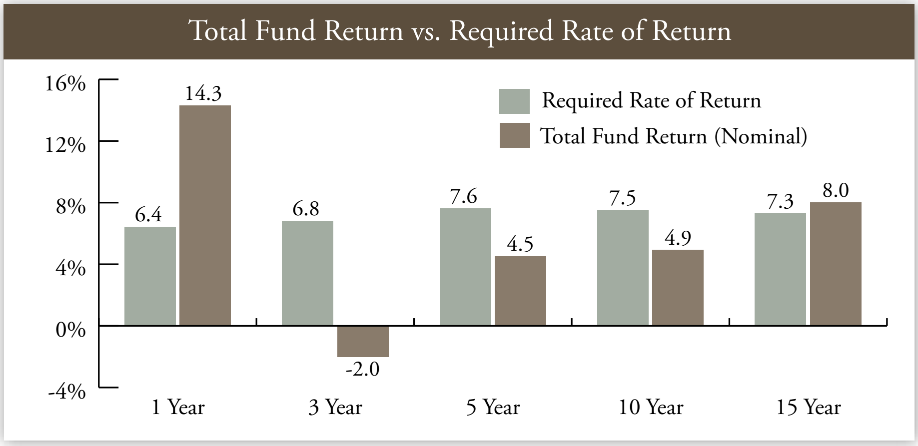
The bar chart to the right reflects that MOSERS' investment returns have exceeded the required rate of return by .7% over the 15-year period ended June 30, 2010.[4]

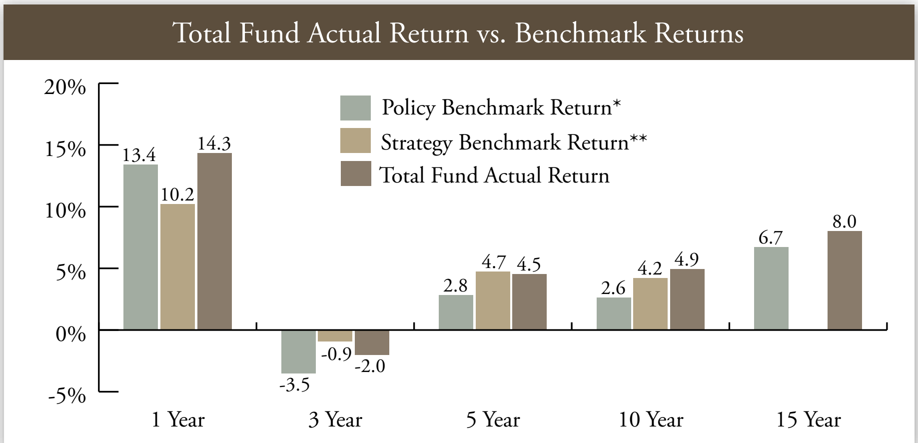
Investment Performance vs. Benchmark Comparisons

In addition to measuring performance relative to the required rate of return, the board also compares fund returns to the following two market benchmarks: the policy benchmark and the strategy benchmark.

The policy benchmark provides an indication of the returns that have been achieved (excluding transaction costs) by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in MOSERS' policy asset allocation. Comparison of the total return to the policy benchmark is a reflection of the extent to which the asset allocation (beta) kept pace with the system's funding objectives. For the tenth straight year the actual total return has generated returns in excess of the policy benchmark, contributing $49 million in excess performance this fiscal year.

The strategy benchmark is more narrowly defined and focuses on sub-asset class allocation decisions made by the CIO. By comparing the policy benchmark to the strategy benchmark, the board is able to determine the value added through strategic decisions (active management) made by the CIO.





* As of 6/30/10, the policy benchmark was comprised of the following components: 45% total public equity policy benchmark, 30% total public debt policy benchmark, and 25% total alternatives investments policy benchmark.

** As of 6/30/10, the strategy benchmark was comprised of the following components: 46.5% total public equity strategy benchmark, 28.5% total public debt strategy benchmark, and 25% total alternative investments strategy benchmark. A strategy benchmark for the 15-year period is not available.

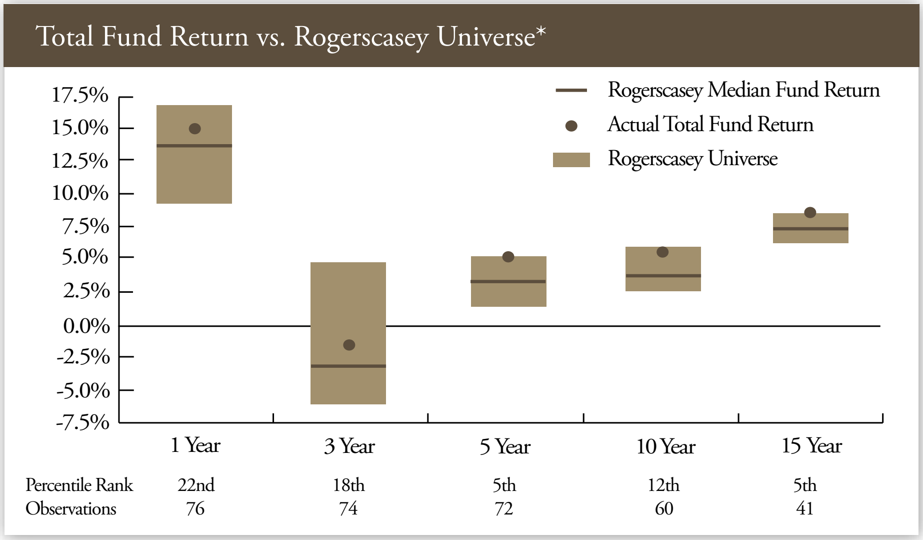
Value is created when the strategy benchmark returns exceed the policy benchmark returns. Returns for the total fund versus these benchmarks are displayed in the bar chart above.

Similarly, by comparing the actual return to the strategy benchmark, the board will over the long term, be able to judge the success or failure of the staff and the consultant in implementing the CIO's strategic decisions. The primary implementation decision is in determining which managers the fund should employ. Value is added from manager selection when the total fund return exceeds the strategy benchmark return.

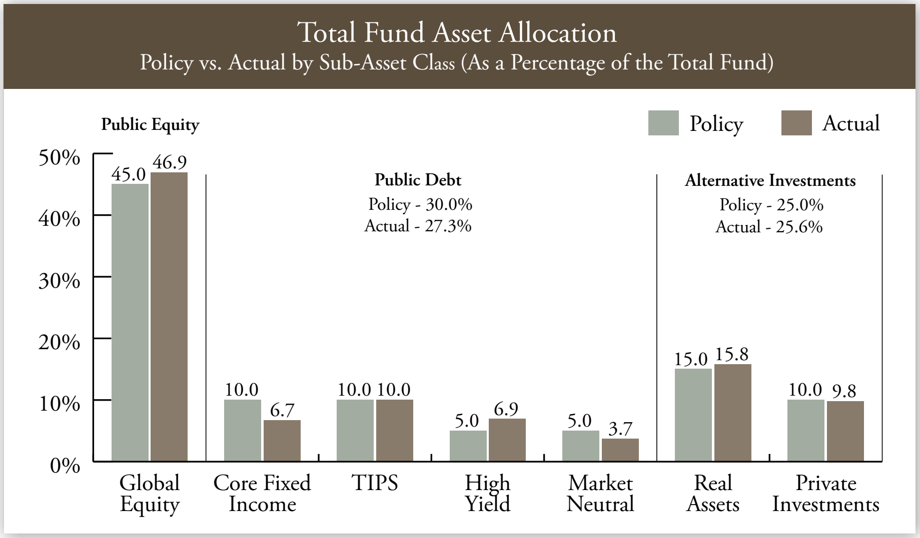
[4] Performance returns were calculated using a time-weighted rate of return on market values.

Investment Performance vs. Peer Universe

To a lesser extent, the board compares total fund performance to the returns generated by a peer group of public pension funds and compiled by Rogerscasey, a diverse global investment solutions firm with clients worldwide. Long-term performance is the best indicator of success. For the past 15-year period ended June 30, 2010, MOSERS' total fund return outperformed 95% of the public pension funds in the Rogerscasey universe of public pension plans with assets in excess of $1 billion. MOSERS' total fund performance within the Rogerscasey universe is provided in the graph above.



* Rogerscasey is a global investment solutions firm with clients worldwide. The Rogerscasey universe data reflects performance data of funds with assets in excess of $1 billion.



Total Fund Asset Allocation Overview

As of June 30, 2010, the board's broad policy allocation mix was 45% public equity, 30% public debt, and 25% alternative investments. The policy target as of June 30, 2010, for each sub-asset class, along with the actual strategic allocation to each type of investment is shown in the bar graph to the right.

A formal asset/liability study is conducted every five years to examine the portfolio's ability to generate the required rate of the return given return expectations from the various asset classes represented in the portfolio and to lower the total portfolio volatility. The most recent study conducted in July 2007, concluded that the MOSERS' portfolio could be further diversified by thinking more globally and could entertain more illiquid assets in an effort to enhance risk-adjusted performance, ultimately leading to an acceptable contribution level and reduced contribution volatility. To that end, the board approved a public equity benchmark change to more global benchmark, MSCI ACWI, and a 5% public equity allocation reduction with a corresponding 5% increase to alternative investments.

The board maintained the flexibility granted to the CIO to make strategic decisions related to the allocation subject to predefined sub-asset class ranges. A strategic decision should be thought of as any decision that might cause MOSERS' actual portfolio to differ from the policy asset allocation. This has allowed MOSERS to capitalize on investment opportunities at the margin by overweighting asset classes that are viewed as "cheap" relative to their historical norm and underweighting asset classes that are "expensive" relative to their historical norm. Since being granted this authority in 2002, the ability to make strategic asset allocation decisions has added 1.3% annually, or approximately $744 million to the portfolio.

The asset allocation is built upon the belief that diversification is critical. The table below reflects the asset classes and their correlation to each other.

Total Fund Correlation Table - 5 Years

	Global Equity	Core Fixed Income	TIPS	High Yield	Market Neutral	Real Assets	Private Investments
Global equity	1.00						
Core fixed income	0.46	1.00					
TIPS	0.30	0.76	1.00				
High yield	0.64	0.36	0.37	1.00			
Market neutral	0.66	0.56	0.33	0.70	1.00		
Real assets	0.50	0.51	0.37	0.25	0.53	1.00	
Private investments	0.75	0.45	0.28	0.50	0.61	0.53	1.00

Statistics

The table below displays the statistical performance data (net of fees) of the total fund as of June 30, 2010.

Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year	15 Year
Annualized return	14.3%	(2.0)%	4.5%	4.9%	8.0%
Annualized standard deviation	8.05%	11.76%	9.77%	9.89%	9.27%
Sharpe ratio	1.76	(0.32)	0.16	0.21	0.46
Excess return*	0.9%	1.5%	1.7%	2.3%	1.3%
Beta*	0.68	0.68	0.71	0.80	0.84
Annualized alpha*	4.79%	0.14%	2.34%	2.63%	2.19%
Correlation*	0.96	0.96	0.95	0.96	0.96

** As compared to total fund policy benchmark.*

SCHEDULE OF INVESTMENT RESULTS
1-, 3-, 5-, 10- AND 15-YEAR PERIODS

	1 Year	3 Year	5 Year	10 Year	15 Year
Total fund*					
MOSERS	14.3%	(2.0)%	4.5%	4.9%	8.0%
Composite total return benchmark	13.4%	(3.5)%	2.8%	2.6%	6.7%
Public equity					
MOSERS	14.3%	(6.6)%	3.5%	3.1%	7.9%
Public equity composite benchmark	11.8%	(10.8)%	0.3%	-0.2%	6.0%
Public debt					
MOSERS	14.8%	4.8%	5.2%	7.7%	7.3%
Public debt composite benchmark	11.4%	7.3%	6.0%	8.0%	7.5%
Alternative Investments					
MOSERS	11.8%	(2.0)%	4.1%		
Alternatives composite benchmark	17.6%	(3.6)%	1.6%		

* *Time-weighted rates of return on market values adjusted for cash flows.*

- **Total Fund** - As of June 30, 2010, the total fund policy benchmark was comprised of the following components: 45% total public equity policy benchmark, 30% total public debt policy benchmark, and 25% total alternative investments policy benchmark. The individual asset class benchmarks as listed below that are used to generate the total fund policy benchmark.

  – **Public Equity** - As of June 30, 2010, the public equity policy benchmark was based on the capitalization of the MSCI ACWI benchmark, which at that date was 43.0% MSCI World Ex U.S. Net, 44.0% MSCI U.S. Net, and 13.0% MSCI Emerging Markets Net. Similar benchmarks were used in previous years.

  – **Public Debt** - As of June 30, 2010, the public debt policy benchmark was comprised of 33.3% Barclays Aggregate, 33.3% Barclays U.S. TIPS, 16.7% Barclays High Yield, and 16.7% T-Bills + 4%. Similar benchmarks were used in previous years.

  – **Alternative Investments** - As of June 30, 2010, the alternative investments policy benchmark was comprised of the following components: 40% S&P 500 + 3%, 24% Wilshire REIT, 24% NCREIF Timberland, and 12% Goldman Sachs Commodity. This program did not begin until July 2002. Similar benchmarks were used in previous years.

INVESTMENT MANAGER FEES
FOR THE YEAR ENDED JUNE 30, 2010

	Total Fees	Manager Fees	Paid/Accrued Performance Fees
Public equity managers			
Baillie Gifford EAFE Plus	$ 86,594	$ 86,594	
Bayview Opportunity Domestic, LP	2,962,128	777,570	$ 2,184,558
Blackstone Hedged Equity Fund, LP	2,364,210	2,364,210	
Blakeney Onyx, LP	2,119,705	2,119,705	
Eminence Fund, Ltd.	1,502,696	623,952	878,744
Grantham, Mayo, and Van Otterloo & Co.	1,083,793	1,083,793	
Legg Mason Opportunity Trust	650,346	650,346	
Legg Mason Value Trust	312,037	312,037	
Leuthold Weeden Capital Management	415,526	415,526	
Mastholm Asset Management	447,457	447,457	
Morant Wright Investment Management	726,825	726,825	
Nippon Value Investors	821,639	821,639	
Silchester International Investors	2,213,175	2,213,175	
Trust Company of the West	860,953	860,953	
TPG - Axon Partners (Offshore), Ltd.	777,319	777,319	
Viking Global Equities III, Ltd.	2,054,186	1,139,899	914,287
Total public equity managers	19,398,589	15,421,000	3,977,589
Public debt managers			
Bayview Opportunity Domestic, LP	3,367,216	1,063,949	2,303,267
BlackRock Financial Management Mortgage Opportunities	265,754	265,754	
BlackRock Financial Management Bank Loans	682,246	682,246	
BlackRock Financial Management High Yield	278,206	278,206	
Total public debt managers	4,593,422	2,290,155	2,303,267
Alternative investment managers			
Actis Emerging Markets 3	994,542	994,542	
African Development Partners I, LLC	721,838	721,838	
Alinda Infrastructure Fund I, LP	249,669	249,669	
Axiom Asia Private Capital Fund II, LP	413,515	401,370	12,145
Bayview Opportunity Domestic, LP	2,109,781	613,840	1,495,942
Blackstone Real Estate Partners IV	830,628	830,628	
Blackstone Real Estate Partners V	1,081,372	1,081,372	
Blackstone Real Estate Partners VI	1,113,328	1,113,328	
Bridgepoint Europe III A, LP	152,343	152,343	
Bridgepoint Europe IV B, LP	673,250	673,250	
Campbell Timber Fund II-A, LP	492,376	492,376	
CarVal Investors CVI Global Value Fund A, LP - real estate	878,749	878,749	
CarVal Investors CVI Global Value Fund A, LP - private debt	878,749	878,749	
Catterton Partners V, LP	1,266,745	246,500	1,020,245
Catterton Partners VI, LP	479,942	479,942	
DDJ Capital Management - B IV Capital Partners, LP	(1,092,567)	(1,213,558)	120,991
DRI Capital - LSRC	341,806	316,868	24,938
DRI Capital - LSRC II	43,557	43,557	
Garnet Sky Investors Company, Ltd.	543,841	521,587	22,254
Global Forest Partners GTI7 Institutional Investors Co., Ltd.	566,187	566,187	

	Total Fees	Manager Fees	Paid/Accrued Performance Fees
Harvest Fund Advisors, LLC	336,865	336,865	
JLL Partners Fund V, LP	838,164	317,013	521,151
JLL Partners Fund VI, LP	2,441,372	761,486	1,679,886
Merit Energy Partners F-II, LP	90,248	90,248	
MHR Institutional Partners IIA, LP	(637,446)	407,659	(1,045,105)
MHR Institutional Partners III, LP	1,176,810	1,176,810	
New Mountain Partners III, LP	710,373	710,373	
NISA Investment Advisors	740,825	372,947	367,878
OCM/GFI Power Opportunities Fund II, LP	735,245	209,584	525,661
OCM Opportunities Fund IVB, LP	(98,835)	5,660	(104,495)
OCM Opportunities Fund VIIB, LP	7,691,610	1,138,996	6,552,614
OCM Real Estate Opportunities Fund III, LP	690,635	153,507	537,128
Parish Capital Buyout Fund I, LP	404,713	404,713	
Parish Capital Buyout Fund II, LP	387,494	387,494	
Parish Opportunities Fund II, LP	187,500	187,500	
Resource Management Service - Wildwood Timberlands, LLC	5,259,239	723,152	4,536,087
Silver Lake Partners II, LP	1,156,510	(6,728)	1,163,238
TCW Energy Partners, LLC	1,391,650	1,471,175	(79,525)
TCW Energy Fund XIV, LP	1,132,191	515,188	617,003
The Veritas Capital Fund III, LP	2,043,417	215,753	1,827,664
Total alternative investment managers	39,418,231	19,622,531	19,795,700
Alpha pool managers			
AQR Absolute Return Institutional Fund, LP	1,171,685	1,171,685	
AQR DELTA Sapphire Fund, LP	817,752	817,752	
Barclays Global Investors Global Market Neutral Fund	(205,200)	(205,200)	
Blackstone Distressed Securities Fund, LP	33,879	33,879	
Blackstone Topaz Fund, LP	2,112,852	2,112,852	
Brevan Howard, LP	746,061	503,771	242,290
Bridgewater Associates - Diamond Ridge Fund, LLC	2,799,408	2,799,408	
Davidson Kempner Institutional Partners, LP	3,219,936	691,576	2,528,360
Diamondback Partners, LP	250,000	250,000	
Elliott International, Ltd.	192,305	192,305	
Eton Park Fund, LP	1,508,241	810,248	697,993
Farallon Capital Institutional Partners, LP	2,195,799	508,202	1,687,597
HBK Offshore Fund, Ltd.	977,343	606,570	370,773
Highside Offshore, Ltd.	206,896	206,896	
King Street Capital, Ltd.	2,005,075	1,190,972	814,102
PAAMCO - Newport Pioneer, LLC	973,668	1,156,259	(182,591)
Silver Point Capital Fund, LP	460,021	460,021	
Total alpha pool managers	19,465,721	13,307,197	6,158,524
Other managers			
NISA Investment Advisors	1,284,879	1,284,879	
MOSERS Inc.	63	63	
Total other managers	1,284,942	1,284,942	
Grand totals	$ 84,160,905	$ 51,925,825	$ 32,235,080

SCHEDULE OF INVESTMENT PORTFOLIOS BY ASSET CLASS
AS OF JUNE 30, 2010

	Fair Value	Percentage of Investments at Fair Value
Public global equity	$ 3,191,788,951	46.9%
Public debt		
Core fixed income	451,636,777	6.7
High yield bonds	464,727,540	6.9
TIPS	676,438,564	10.0
Market neutral	269,812,766	3.7
Total public debt	1,862,615,647	27.3
Alternative investments		
Real assets	1,072,154,221	15.8
Private investments	669,135,543	9.8
Total alternative investments	1,741,289,764	25.6
Other portfolios		
Other investments	(8,101,763)	(0.1)
Cash reserve	18,261,253	0.3
Total other	10,159,490	0.2
Grand total	$ 6,805,853,852	100.0%

Reconciliation to *Statement of Plan Net Assets*	
Total portfolio value	$ 6,805,853,852
STIF	(606,500,028)
Uninvested cash	(34,271,330)
Interest and dividend receivable	23,634,137
Variation margin	1,761,740
Foreign currency fluctuation	70,923
AR securities sold	(34,335,655)
AP securities purchased	23,438,533
Incentive fees payable	11,366,443
Securities lending liability	8,273,526
Investments per *Statement of Plan Assets*	$ 6,199,292,141

* *Cash reserve is not reflected as an individual asset class; therefore, minor rounding differences exist between the percentages reported in this schedule and other information contained in this section.*

PUBLIC EQUITY ASSET CLASS SUMMARY

As of June 30, 2010, the public equity portfolio had a market value of $3.2 billion, representing 46.9% of the total fund. Performance for the fiscal year was 14.3%, net of fees and expenses.

Highlights

There were some strategic changes in the make-up of the traditional equity portion of the portfolio, one new manager was hired and some allocations were altered. Here are the highlights:

- In the first quarter of 2010, all of the opportunistic credit investments which were allocated to public equity initially in 2008, were moved to the public debt high yield allocation with the exception of the master limited partnership investment which was moved to the alternative investments real assets allocation. As credit spreads tightened during the year, these investments were no longer expected to generate equity-like returns therefore they were moved to other parts of the portfolio.
- Increases were made to hedge equity managers as opportunities presented themselves to invest alongside some of the highest alpha producing managers in the long/short area.
- The Japanese overweight was decreased throughout the year as the valuation gap between European and Japanese equities diminished.

An overweight to the largest domestic equities by market capitalization was implemented due to our belief that these companies represented a good value proposition and should generate strong relative returns for the portfolio over time.

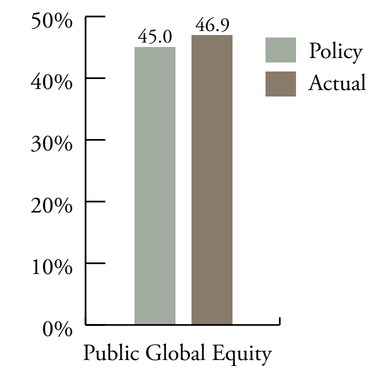
Portfolio Structure

The public equity portfolio has a target allocation of 45% of the total fund. This portfolio is benchmarked against the MSCI ACWI index. As of June 30, 2010, the portfolio includes domestic equity, international developed equity, and emerging markets equity. As part of the implementation plan, hedged equity managers are utilized as a risk reducing tool. The bar chart to the right illustrates the actual allocation relative to the board's policy benchmark for public equity. Differences reflect the CIO's strategic decisions to overweight or underweight as of June 30, 2010.

The addition of credit opportunities in FY08 did not change the total policy allocation to public equity and, although these strategies were largely comprised of debt instruments, the investments were judged against the global equity benchmark. This allocation was looked at as a strategic move out of equity and into an area that was believed to offer equity-like returns with substantially less risk.

As of June 30, 2010, these credit opportunities have been moved out of the public equity allocation as going forward return expectations no longer meet the criteria when measured against an equity benchmark.

Public Equity Allocation
Policy vs. Actual (As a Percentage of the Total Fund)



Market Overview

The MSCI All Country World Net Index returned 11.8% for the fiscal year. The strong performance was lead by emerging markets. The first half of the FY10 saw the equity markets return 23.3% as the strong rebound from the global financial crisis drove the markets. The second half of the FY10 actually produced a return of -4.7% as fears of a double dip recession, government debt at unsustainable levels and a housing market yet to recover pressured the markets. At year-end, markets were volatile as each piece of information released seemed to conflict with the previous. Governments around the world were faced with the desire to increase spending to stimulate the economy while, at the same time, realizing a need to reduce debt for the long-term good of the economy.

The U.S. markets were up 13.6% for the year. Industrials and consumer discretionary stocks led the way with returns of 25.6% and 28.1%, respectively. The financials sector was next with a return of 16.3%. Many of the stocks that were beaten down in 2008 and early 2009 produced strong returns after having been priced as if they would not survive. The energy sector return of 0.6% was the lowest in the U.S.

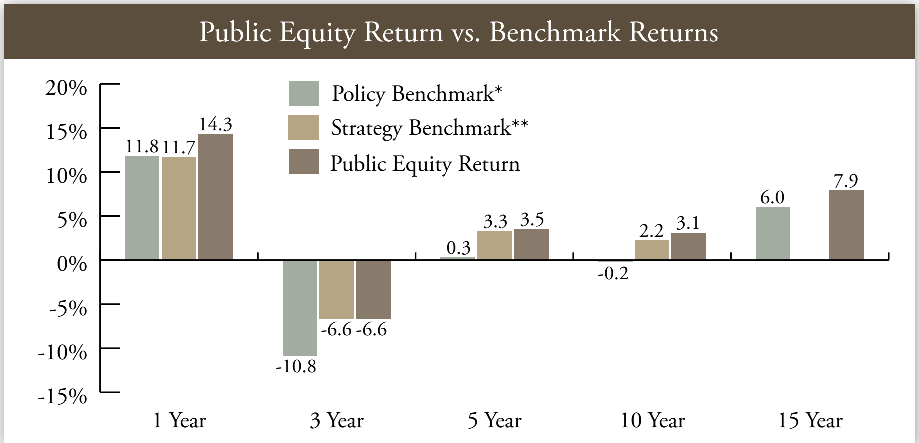
Looking to the future, it is difficult to find much agreement on the markets. Some argue that trouble lies ahead. Stimulus spending has failed to kick start the economy and high debt levels for the government and individuals signal continued weakness ahead. Others review strong corporate balance sheets and predict increasing growth and a recovery in the markets. Only time will tell which group is right.

Performance

The public equity portfolio returned 14.3% for the fiscal year, exceeding the policy benchmark return of 11.8%, and strategy benchmark return of 11.7%, as illustrated in the bar chart above right.

The outperformance of the equity portfolio was driven by the U.S. and developed international portfolios, while the emerging markets portfolio underperformed its benchmark as the lower beta of that portfolio hurt performance in the strong up year.

The positive performance of the actual portfolio relative to the policy benchmark shows value added by staff and the external asset consultant



* As of 6/30/10, the public equity policy benchmark was comprised of 100% MSCI All Country World Index.

** As of 6/30/10, the public equity strategy benchmark was comprised of the following components: 52.3% domestic consisting of S&P 500, S&P 400, S&P 100, MSCI U.S. Net, and hedge equity strategy benchmark; 35.4% international developed consisting of MSCI World Ex U.S. Net and TOPIX USD Index; 12.3% emerging markets consisting of MSCI EMF Net. A strategy benchmark for the 15-year period is not available.

through strategic decisions and manager selection decisions. The strategy benchmark is compared to the policy benchmark to capture the value added by strategic allocation decisions.

In FY10, our strategic decision to overweight U.S. stocks relative to developed international was offset by our overweight to Japanese equities during the year. While steps were taken to reduce the overweight to Japanese equities early in the fiscal year, a small overweight was maintained through most of the year. By year-end, the Japanese equity overweight had almost been totally eliminated.

Within the U.S. equity portfolio we initiated an overweight position to mega-cap stocks, which by year-end had detracted from our relative performance. There are a growing number of market participants that have identified these stocks as relatively cheap, both when measured against themselves and against other parts of the market. We believe this group of company's, broadly referred to as the "quality" trade represent a good value proposition, with strong dividend yields and globally diversified earnings. While the markets did not value these companies as such in FY10, we believe these companies should generate strong relative returns for the portfolio over time.

Manager selection decisions were broadly positive within the public equity portfolio as the portable alpha program generated significant value added for the portfolio along with strong performance from several of our traditional active managers.

Top Ten Holdings

The top ten holdings within the public equity portfolio as of June 30, 2010, are shown at the top of the following page.

Market Value

The equity allocation was $3.2 billion, or 46.9% of the total fund as of June 30, 2010.

Summary of Portfolio

MOSERS maintains a significant allocation to publicly traded shares of corporations around the world. Equity exposure is achieved through broadly diversified portfolios representing a variety of styles, sectors, market capitalizations, and an allocation to the beta/alpha program (see pages 99-100 for further details). Equity investments are made in the U.S., international developed, and emerging markets. The equity portfolio is expected to contribute significantly to the fund's achievement of a long-term real return in excess of the 5.3% objective set by the board.

It is expected that this portfolio will perform well in periods of falling inflation and rising growth and offer income potential through dividend payments.

Statistical Performance

The table to the middle right displays the statistical performance data (net of fees) of the public equity portfolio as of June 30, 2010.

Investment Advisors

As of June 30, 2010, MOSERS had contracts with 14 external investment advisors who manage 15 portfolios that comprise 63.6% of the equity portfolio. The remaining 36.4% of the portfolio is in the beta/alpha program described on pages 99-100.

In FY10, there was one manager hired and none terminated in the equity portfolio. Management expenses for these managers can be found on pages 76-77 under the total fund overview section of this report.

Public Equity - Top Ten Holdings

Ten Largest Holdings as of June 30, 2010	Market Value	Percent of Total MOSERS Public Equity Portfolio
Occidental Petroleum Corp.	$ 5,351,355	0.17%
General Electric Co.	4,373,759	0.14
Cenovus Energy Inc.	4,283,719	0.13
Comcast Corp.	4,155,147	0.13
Cigna Corp.	3,970,990	0.12
Amgen Inc.	3,845,060	0.12
Best Buy Co. Inc.	3,840,774	0.12
Mead Johnson Nutrition Co.	3,806,113	0.12
Sony Corp.	3,762,787	0.12
Teva Pharmaceutical Industries	3,751,079	0.12

Public Equity - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Annualized return	14.3%	(6.5)%	3.5%	3.1%
Annualized standard deviation	14.16%	18.49%	15.41%	15.38%
Sharpe ratio	1.00	(0.45)	0.04	0.02
Excess return*	2.5%	4.2%	3.2%	3.3%
Beta*	0.80	0.78	0.80	0.87
Annualized alpha*	4.24%	1.62%	2.97%	3.13%
Correlation*	0.99	0.99	0.98	0.98

** As compared to the total equity policy*

Public Equity - Investment Advisors

Investment Advisors	Style	Portfolio Market Value
Baillie Gifford Overseas, Ltd.	Active growth int'l developed	$ 96,254,943
Beta/alpha program int'l equity	Active	292,276,789
Beta/alpha program U.S. equity	Active	869,085,747
Blackstone Alternative Asset Mgt.	Hedged equity	213,201,711
Blakeney Management	Active value frontier markets	127,094,802
DG Capital	Active all-cap growth	121,188,661
Eminence Capital	Hedged equity	46,350,743
GMO, LLC	Active growth emerging markets	133,326,570
Legg Mason Opportunity Trust	Active all-cap value	81,940,904
Legg Mason Value Trust	Active all-cap value	43,108,010
Leuthold Weeden	Active all-cap sectors	112,746,048
Mastholm Asset Management	Active growth	92,092,237
Morant Wright Management Ltd.	Active Japan	95,393,692
Nippon Value Investors	Active Japan	92,912,558
NISA emerging markets	Index	174,593,532
NISA international long/short	Hedged equity	8,008,891
Silchester International Investors	Active value int'l developed	488,226,623
TPG Axon Capital	Hedged equity	43,650,337
Viking Global Investors	Hedged equity	60,209,719
Miscellaneous Emerging Markets	Index	126,434
Total		$ 3,191,788,951

Brokerage Activity

The following table illustrates the brokerage activity that occurred within the equity portfolio throughout the fiscal year. Brokerage activity for the credit opportunities investments that were moved to the public debt high yield and alternative investments real assets allocations are included in the high yield and real assets brokerage activity, respectively.

Public Equity - Brokerage Activity

Brokerage Firm	Shares Traded	Dollar Volume of Trades	Commissions Dollar Amount	Commissions Value Per Share
Calyon Securities (Setclear), New York	23,868,583	$ 112,751,588	$ 79,255	$0.00
Credit Suisse	13,855,079	122,684,427	201,712	0.01
Nomura Securities Int'l Inc., New York	12,601,915	35,688,111	71,493	0.01
Weeden & Company, New York	11,049,456	200,870,453	221,288	0.02
Merrill Lynch	10,468,497	122,281,502	296,300	0.02
Cowen and Company, LLC, New York	4,881,536	137,591,431	97,855	0.02
Morgan Stanley & Co. Inc., New York	4,523,787	76,447,029	66,162	0.01
Union Bank Switzerland Securities, London	4,033,835	110,145,719	63,460	0.02
Goldman Sachs Execution & Clearing, New York	3,955,678	98,048,202	84,078	0.02
J.P. Morgan Securities Ltd.	3,788,891	91,282,600	123,369	0.03
Fidelity Capital Markets (Div of NFSC), Boston	3,047,830	62,889,590	60,905	0.02
Pershing LLC, Jersey City	1,691,416	41,791,154	46,116	0.03
SG Securities (London) Ltd., London	1,603,300	29,066,407	55,719	0.03
Credit Agricole USA, New York	1,517,800	23,036,953	41,578	0.03
Mitsubishi UFJ Securities (USA), New York	1,505,700	28,826,011	43,246	0.03
Mainfirst Bank AG, Frankfurt	367,400	22,311,707	44,601	0.12
Others (includes 138, each contributing less than 1%)	61,635,560	1,078,676,727	773,520	0.01
Total	164,396,263	$ 2,394,389,611	$ 2,270,657	0.01

Soft Dollar Expenditures

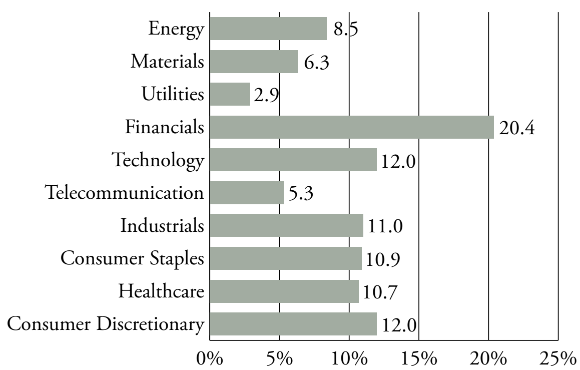
In the fiscal year ended June 30, 2010, MOSERS' equity managers declared $87,903 of the commissions generated were utilized to acquire a variety of services and research information. These expenditures, referred to as soft dollars (expendable excess commissions), are permitted under current Securities Exchange Commission (SEC) guidelines and represent less than 4% of MOSERS' agency commissions.

Public Equity - Soft Dollar Expenditures

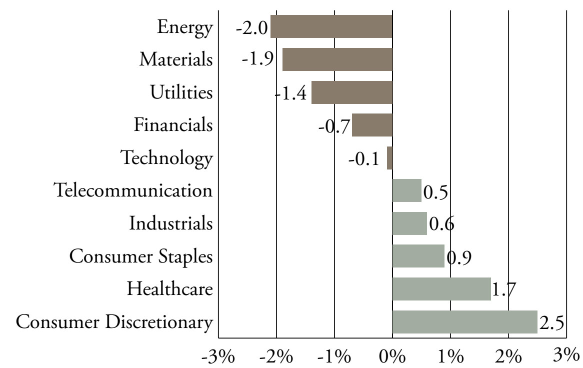
Types of Services Acquired	Commissions Used	Percentage of Total
Consulting/benchmarks	$ 2,378	2.7%
Research services	81,092	92.3
Trading/analytic systems	284	0.3
Market research	4,149	4.7
Total	$ 87,903	100.0%

Public Equity by Sector

Allocation Mix

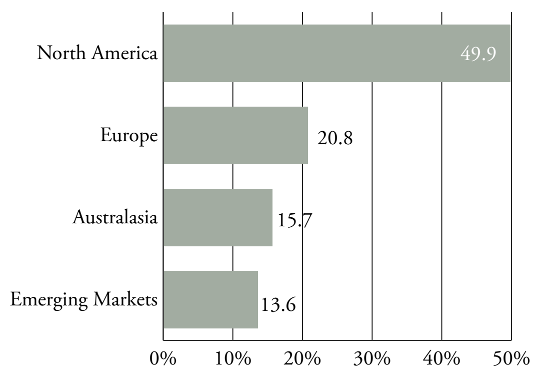


Over/Underweight (%) Policy Benchmark

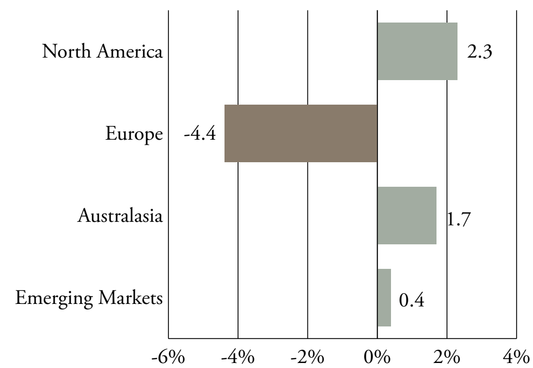


Public Equity by Region

Allocation Mix

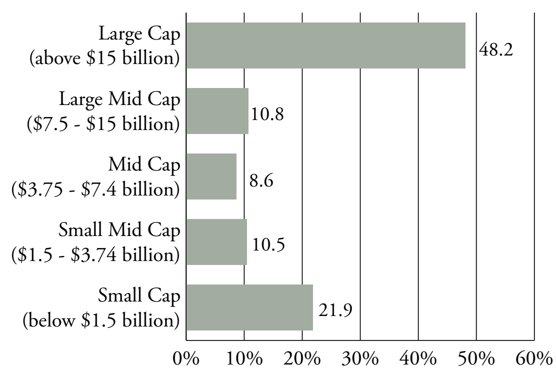


Over/Underweight (%) Policy Benchmark

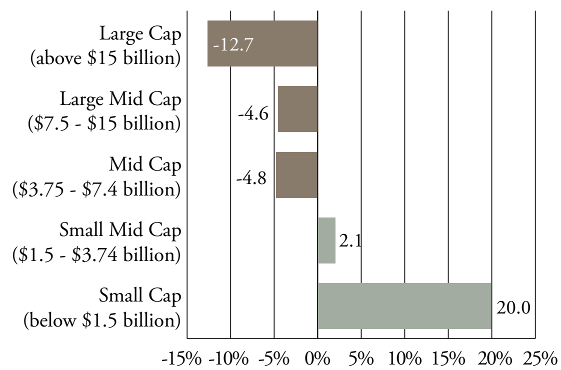


Public Equity by Market Cap

Allocation Mix

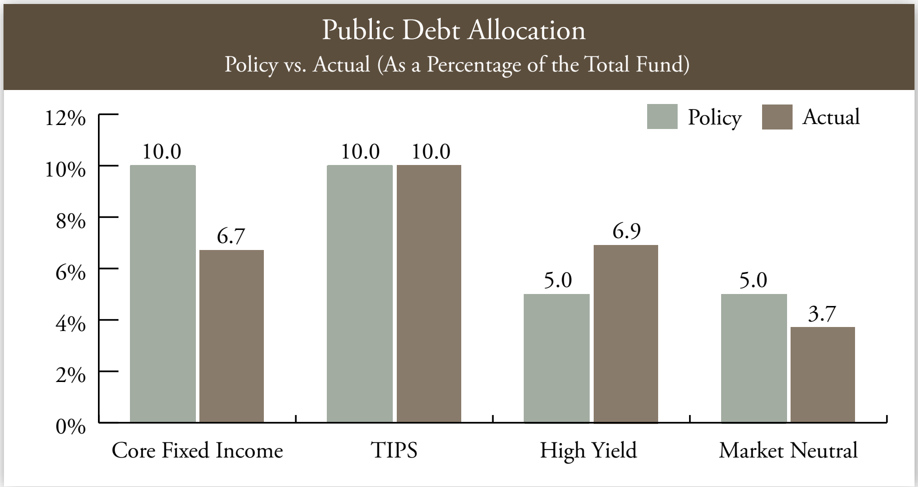


Over/Underweight (%) Policy Benchmark



PUBLIC DEBT ASSET CLASS SUMMARY

As of June 30, 2010, the public debt allocation had a market value of $1.9 billion, representing 27.3% of the total fund. Performance for the fiscal year was 14.8%, net of fees and expenses.



Highlights

There were some modest tactical changes made to the public debt portfolio during the fiscal year. Here are a few of the highlights:

- The substantial overweight to treasuries that was initiated in 2007 was maintained, with the offsetting underweight coming primarily from investment grade corporate securities and government guaranteed mortgages.
- Within high yield, the hedge implemented in 2007 on a significant portion of the portfolio to protect against credit deterioration was removed as spreads tightened during the year and perceived default risk diminished substantially.
- The credit opportunities portfolio that resided within the equity allocation was moved to the high yield allocation in the first quarter of 2010. This resulted in the high yield allocation moving from policy weight to nearly a double weight. Through asset sales and prepayments of securities, the overweight was reduced in half by fiscal year-end.

Portfolio Structure

The public debt portfolio has a target allocation of 30% of the total fund. This portfolio is comprised of four sub-asset classes which include core fixed income, high yield bonds, Treasury Inflation Protected Securities (TIPS) and market neutral. The bar chart above illustrates the actual sub-asset allocations relative to the board's policy allocation for each of these sub-asset classes. Differences reflect the CIO's strategic decisions to overweight or underweight sub-asset classes as of June 30, 2010.

Market Overview

A recovery in the financial markets and economic activity that began near the end of FY09 continued throughout FY10. As of June 30, 2009, the federal funds rate was 0% to 0.25% and the Federal Reserve Board (Fed) stated that the economic contraction was slowing but remained concerned about the downside risk to growth. The Fed gradually changed its stance as the economy started recovering and began removing monetary stimulus in the first half of 2010. The Fed has maintained the discount rate in a range from 0% to 0.25% since December 2008. At the June 2010 meeting, the Fed noted that the economic recovery was proceeding but there continued to be concern about downside risks.

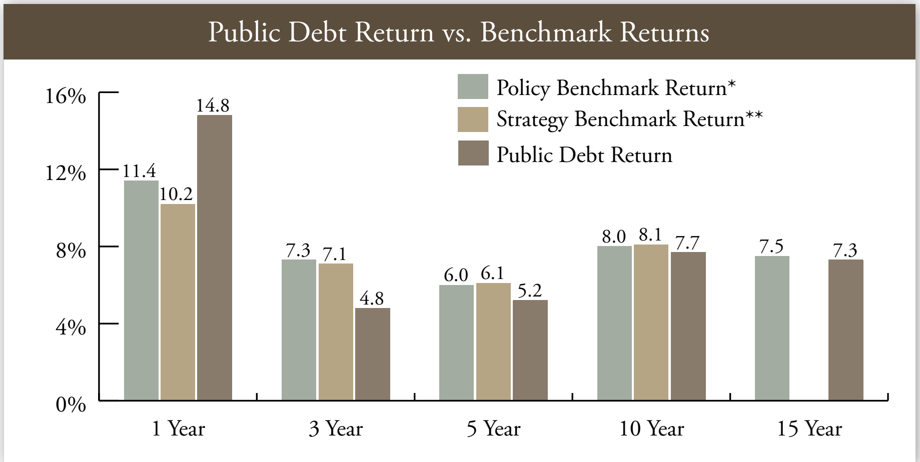
Long treasury rates continued to exhibit a higher level of volatility that began in FY09. Rates started FY10 at 4.33% and ended at 3.89%, with yields ranging from 3.89% to 4.84%. Short-term rates remained low as the Fed maintained the federal funds rate constant, and market participants continued to show a strong interest in the short-end seeking liquidity and safety. The yield curve flattened slightly; however, it continued to be historically steep.

On the economic front, the declines in all areas of the housing market that began in FY07 started to modestly improve in FY10. The housing market was helped by low mortgage rates and home buyer tax credits. Foreclosures and a large "shadow" inventory continue to overhang the housing market and may put additional pressure on housing prices. GDP was contracting at an approximate 4% year-over-year rate to start the fiscal year and had improved to a

positive 3.2% rate by the end of FY10. Year-over-year CPI began FY10 at -1.4% and increased to 1.1% by year-end. The U.S. and other world governments began withdrawing fiscal and monetary stimulus and, as a result, by the end of FY10, many of the economic indicators had stopped improving or have even reversed their positive trends.

The broad debt market as represented by the Barclays Capital Aggregate Index experienced a return of 9.5% while the treasury market returned 6.7% for FY10. The investment grade corporate market gained 15.9% while the high yield market had a return of 26.8%. Investment grade and high yield spreads contracted sharply. Investment grade spreads narrowed 119 basis points and high yield spreads narrowed 281 basis points.

Overall, the general theme for FY10 was financial markets recovering from the turmoil experienced in FY09. World government intervention through monetary and fiscal stimulus helped improve the global economy. The Fed is positioned to keep interest rates at current levels for "an extended period of time" with a goal to carefully monitor economic and market activity for changes in the event of a need to modify the quantitative easing policy either in the direction of further ease (economy that is unresponsive to stimulus) or tightening and ultimately complete removal of easing measures (economy normalizes and inflation becomes a threat).



* As of 6/30/10, the public debt policy benchmark was comprised of the following components: 33.3% Barclays Aggregate, 33.3% Barclays U.S. TIPS, 16.7% Barclays High Yield, and 16.7% T-Bills + 4%.

** As of 6/30/10, the public debt strategy benchmark was comprised of the following components: 22.7% core bond consisting of actual return of beta fixed income; 34.3% Barclays U.S. TIPS; 29.2% high yield consisting of Barclays High Yield, CSFB Leverage Loan Index, and actual return of Bayview; and 13.8% T-Bills + 4%. A strategy benchmark for the 15-year period is not available.

Public Debt - Top Ten Holdings

Ten Largest Holdings as of June 30, 2010	Market Value	Percent of Total MOSERS Public Debt Portfolio
U.S. Treasury Inflation Index Note - 2.625%, 2017	$ 134,777,472	7.2%
U.S. Treasury Inflation Index Note - 2.000%, 2014	132,881,697	7.1
U.S. Treasury Inflation Index Bond - 2.375%, 2025	95,282,516	5.1
U.S. Treasury Inflation Index Note - 3.375%, 2017	71,847,365	3.9
U.S. Treasury Inflation Index Note - 3.000%, 2012	56,443,989	3.0
U.S. Treasury Inflation Index Bond - 2.375%, 2027	50,839,963	2.7
U.S. Treasury Inflation Index Bond - 2.000%, 2026	46,022,151	2.5
U.S. Treasury Inflation Index Note - 0.500%, 2015	43,652,682	2.3
U.S. Treasury Inflation Index Bond - 1.750%, 2028	25,031,432	1.3
U.S. Treasury Inflation Index Bond - 2.125%, 2040	13,235,807	0.7

Performance

The public debt portfolio returned 14.8% for the fiscal year, significantly outperforming the policy benchmark return of 11.4% and the strategy benchmark return of 10.2%. During the fiscal year, the outperformance to the policy benchmark was attributable to the implementations primarily within core fixed income and secondarily within market neutral. The portfolio is currently positioned with less interest rate risk than is the policy benchmark, a factor that may enable better long-term performance relative to the benchmark as interest rates are at historical lows and likely will rise in the event of continued economic recovery. The bar chart at the top of the page illustrates performance over longer periods of time.

Top Ten Holdings

The top ten holdings within the public debt portfolio as of June 30, 2010, are illustrated in the table above.

CORE FIXED INCOME

Market Value

The core fixed income allocation was $451.6 million as of June 30, 2010, or 6.7% of the total fund and below its policy target of 10%.

Summary of Portfolio

The core fixed income sub-asset class gives the total fund exposure to high quality fixed income instruments which, in turn, provides stable cash flows and excellent liquidity to the portfolio. Types of fixed income securities that may be held within this portfolio include U.S. Treasuries, mortgage-backed securities, asset-backed securities, agency securities and investment-grade corporate bonds. Core fixed income is also the one segment within public debt that can be efficiently implemented synthetically due to the wide availability of treasury futures and swaps and their acceptance as mainstream instruments of portfolio management. Synthetic implementation of core exposure has been widely used since the addition of the beta/alpha program in FY05. Beta/alpha within the core segment is expected to be an efficient means of achieving superior risk adjusted returns over an entire economic cycle. Please refer to the section on beta/alpha on pages 99-100 for a more complete description of the program and its rationale. The fixed income asset class provides meaningful diversification to the portfolio in a variety of different economic scenarios. Core fixed income performs well, but would typically lag equities, in periods of good economic growth and falling inflation. One should also expect adequate performance from the core portfolio in periods of falling growth and stable inflation.

Core Fixed Income - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Annualized return	19.3%	7.1%	6.2%	6.6%
Annualized standard deviation	4.91%	6.70%	5.41%	4.75%
Sharpe ratio	3.90	0.80	0.60	0.80
Excess return*	9.8%	(0.5)%	.7%	0.1%
Beta*	1.44	1.32	1.18	1.09
Annualized alpha*	4.68%	(2.68)%	(0.27)%	(0.49)%
Correlation*	0.91	0.81	0.81	0.86

* *As compared to the Barclays Capital Aggregate Bond Index.*

Core Fixed Income - Investment Advisors

Investment Advisor	Style	Portfolio Market Value
Beta/alpha program	Active	$ 451,636,777

Statistical Performance

The table above displays statistical performance data (net of fees) for the core fixed income portfolio as of June 30, 2010.

Investment Advisors

As of June 30, 2010, MOSERS did not have any contracts with external investment advisors for the management of separate fixed income portfolios; however, the core segment participates in the beta/alpha program. In the program, beta and alpha are completely separated such that the beta exposure is gained through synthetic replication of the core components and the alpha is gained through the alpha pool managers.

The table above displays the investment advisor that was under contract with MOSERS for FY10 for the management of core fixed income portfolios. Information regarding management fees paid to this manager may be found on pages 76-77 of this report.

Brokerage Activity

In FY10, MOSERS did not generate any core fixed income brokerage through the purchase and sale of core fixed income assets.

HIGH YIELD BONDS

Market Value

The high yield bond allocation was $464.7 million as of June 30, 2010, or 6.9% of the total fund.

Summary of Portfolio

The high yield bond portfolio invests in debt securities whose credit ratings are below investment grade quality. Relative to the core fixed income portfolio, this sub-asset class provides superior coupon cash flow, as well as some diversification benefit due to a reduced sensitivity to changes in interest rates. MOSERS views this allocation as one that is likely to be variable and very much dependent upon the particular stage of the economic cycle being experienced at the time of the allocation decision. As of June 30, 2010, MOSERS was over the 5% policy target allocation to high yield bonds.

Statistical Performance

The table at the top of the page displays the statistical performance data (net of fees) for the high yield bond portfolio as of June 30, 2010.

Investment Advisors

As of June 30, 2010, MOSERS had contracts with five external investment advisors for the management of the high yield bond portfolio. Information related to these advisors is included in the middle table to the right. For information on management fees paid, consult the table on pages 76-77 of this report.

Brokerage Activity

In FY10, MOSERS generated high yield bond brokerage activity, as shown in the bottom table to the right.

High Yield Bonds - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception (Oct. 2001)
Annualized return	22.0%	(0.9)%	3.2%	7.2%
Annualized standard deviation	5.80%	14.12%	11.06%	9.20%
Sharpe ratio	3.78	(0.19)	0.03	0.52
Excess return*	(4.7)%	(7.3)%	(3.9)%	(1.8)%
Beta*	0.63	0.68	0.68	0.68
Annualized alpha*	4.83%	(5.20)%	(1.52)%	1.07%
Correlation*	0.96	0.84	0.84	0.85

* *As compared to the Barclays Capital High Yield Bond Index*

High Yield Bonds - Investment Advisors

Investment Advisors	Style	Portfolio Market Value
Bayview Asset Management, LLC	Opportunistic mortgages	$ 86,316,494
BlackRock Financial Management, Inc.	Active high yield bonds, loans and non-agency MBS	312,886,597
Fortress Investment Group, LLC	Opportunistic mortgages	27,177,733
NISA Investment Advisors, LLC	Euro hedge	(656,725)
OCM Capital Management, LLC	Opportunistic European loans	39,003,441
Total		$ 464,727,540

High Yield Bonds - Brokerage Activity

Broker/Dealer Firm	Par Amount Traded	Market Value Traded	Percent of Total Trading Volume by Market Value
Citigroup	$ 218,299,986	$276,852,375	27.2%
JP Morgan	122,001,593	111,741,436	11.0
Deutsche Bank	103,448,706	103,114,520	10.1
Credit Suisse	100,666,832	86,603,599	8.5
Bank of America	71,852,442	69,457,183	6.8
Barclays	72,502,767	67,517,485	6.6
Morgan Stanley	68,608,349	67,175,566	6.6
RBS	38,647,024	37,650,701	3.7
Goldman Sachs	43,364,902	36,294,027	3.6
BNP Paribas	36,680,946	30,601,837	3.0
Wells Fargo	26,757,629	27,130,829	2.7
UBS	17,067,184	17,078,605	1.7
Jefferies	12,396,000	12,214,496	1.2
Other (Includes 36, each contributing less than 1%)	96,384,938	75,160,369	7.3
Totals	$ 1,028,679,298	$1,018,593,028	100.0%

TREASURY INFLATION PROTECTED SECURITIES (TIPS)

Market Value

The TIPS allocation was $676.4 million or 10.0% of the total fund as of June 30, 2010.

Summary of Portfolio

TIPS are fixed income securities issued and guaranteed by the U.S. government. The yield on these securities is specifically tied to inflation, as measured by the U.S. consumer price index, plus a predetermined yield above and beyond inflation. The TIPS allocation provides an excellent match relative to the system's liabilities in terms of its ability to provide inflation protection. As of June 30, 2010, MOSERS' allocation was at the 10% policy target allocation to TIPS.

Statistical Performance

The table at the top of the page displays the statistical performance data (net of fees) for the TIPS portfolio as of June 30, 2010.

Investment Advisors

As of June 30, 2010, the TIPS portfolio was 100% internally managed. The middle table to the right summarizes the details.

Brokerage Activity

In FY10, MOSERS generated TIPS brokerage activity through the purchase and sale of TIPS shown in the bottom table.

TIPS - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Annualized return	10.1%	8.0%	5.2%	8.8%
Annualized standard deviation	5.25%	8.95%	7.48%	8.68%
Sharpe ratio	1.89	0.70	0.30	0.69
Excess returns*	0.6%	0.4%	0.2%	0.2%
Beta*	1.03	1.01	1.00	1.01
Annualized alpha*	0.22%	0.29%	0.18%	0.12%
Correlation*	1.00	1.00	1.00	1.00

* *As compared to the Barclays Capital U.S. TIPS Bond Index*

TIPS - Investment Advisors

Investment Advisors	Style	Portfolio Market Value
Internal staff	Passive	$676,438,564

TIPS - Brokerage Activity

Broker/Dealer Firm	Par Amount Traded	Market Value Traded	Percent of Total Trading Volume by Market Value
Credit Suisse	$ 118,400,000	$ 128,829,490	64.0%
Citigroup	46,000,000	52,269,115	26.0
Barclays	16,000,000	20,121,713	10.0
Totals	$ 180,400,000	$ 201,220,318	100.0%

MARKET NEUTRAL

Market Value

As of June 30, 2010, the market neutral allocation was $269.8 million, or 3.7% of the total fund.

Summary of Portfolio

The market neutral portfolio consists of a variety of managers who utilize skill-based investment strategies, which allow them to take advantage of periodic inefficiencies that may exist within the market. The expectation for this sub-asset class is to produce consistent absolute returns in various economic environments. More directly, it is expected that this portfolio will generate returns of 4% in excess of returns on 90-day Treasury bills with similar volatility to what is expected from the core fixed income portfolio. Market neutral investments also provide diversification and downside protection to the portfolio. MOSERS utilizes its beta/alpha program described on pages 99-100 to gain exposure to this sub-asset class. This allows MOSERS to invest in an extremely diversified pool comprised of a variety of different types of strategies that provide additional risk protection and alpha that has minimal exposure to both the stock and the bond markets. As of June 30, 2010, MOSERS is 1.3% under the 5% policy target allocation to market neutral.

Market Neutral - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception (Dec. 2002)
Annualized return	11.6%	0.8%	4.2%	4.7%
Annualized standard deviation	3.21%	6.01%	4.93%	4.18%
Sharpe ratio	3.55	(0.16)	0.25	0.53
Excess return*	7.4%	(4.6)%	(2.4)%	(1.6)%
Beta to S&P 500	0.15	0.16	0.16	0.15
Beta to Barclays Aggregate	0.14	0.27	0.08	0.09

* *As compared to T-bills + 4%*

Market Neutral - Investment Advisors

Investment Advisors	Style	Portfolio Market Value
Alpha program	Market neutral	$ 269,812,766

Statistical Performance

The table above displays the statistical performance data (net of fees) for the market neutral portfolio as of June 30, 2010.

Investment Advisors

MOSERS' market neutral exposure is captured through the 18 managers comprising the alpha program, which is detailed on pages 99-100. The second table summarizes MOSERS' market neutral investment within this pool as of June 30, 2010. Information on manager fees paid can be found on pages 76-77 of this report.

ALTERNATIVE INVESTMENTS ASSET CLASS SUMMARY

At the end of the 2010 fiscal year, the alternative investments portfolio had a market value of $1.7 billion, representing 25.6% of the total fund. For the fiscal year the asset class returned 11.8%, net of fees and expenses.

Highlights

For the most part, the markets in which the alternative investments portfolio is involved were considerably more vibrant and active during FY10 compared to the previous fiscal year, a period when financial markets were under a great deal of stress. The fundraising environment for private investments, while improving, remains sluggish compared to the 2005-2008 period when a tremendous amount of capital was raised. During the year, there were a few additions to the private investments portfolio and a change in the real assets portfolio which should benefit the existing alternative investments portfolio in terms of enhanced returns, additional diversification, and a reduction in costs. Despite the slow environment characterized by managers not being able to raise their targeted amount of capital or having to extend the time needed to raise capital, MOSERS was able to identify a number of attractive strategies. The highlights for the year are listed below:

- MOSERS entered the intellectual property segment of the market by investing in the royalty streams of a number of individual drugs. Exposure to this area was obtained through two separate transactions. The first was made by purchasing the fund interests from another institutional investor. The second was through a direct commitment to a partnership with the objective of acquiring royalty streams. These investments, both of which are managed by the same organization, possess many characteristics that are not typical of most private equity investments. These characteristics include current income, less sensitivity to the economic cycle, and significant barriers to entry due to the legal and pharmaceutical expertise involved in analyzing these instruments. Royalties have a risk-return risk profile that is substantially different from other private equity investments in the portfolio and are expected to produce attractive returns with much less volatility.
- Towards the end of the fiscal year, MOSERS made commitments to two new private equity managers. The first commitment provides the system with exposure to best-of-breed technology companies. This manager focuses on direct-secondary investments, which entails purchasing the interests of shareholders such as founders, employees and others who seek liquidity for their ownership stakes. By targeting companies well into their development cycle, the partnership seeks to generate compelling returns with much less risk than earlier investors. The second commitment was made to a partnership that focuses on investing in the health care and life sciences industry. This area is attractive given its size, breadth and growth characteristics. Both of these opportunities should provide the system with attractive returns while offering a different risk profile that will help diversify the private equity portfolio.
- During the year, MOSERS made a commitment to a distressed debt partnership managed by a firm with extensive experience in this area. Over the next few years, distressed debt could offer an excellent risk-return proposition by purchasing debt and other securities at a significant discount to fair value. Importantly, these securities typically hold a superior claim on a company's assets which tend to provide protection on the downside.

As described above, MOSERS made several additions to the alternative investments portfolio during FY10. In total, these commitments/investments amounted to $110 million. While the commitment pace has picked up compared to the previous fiscal year, staff remains aware of the necessity to manage the liquidity of the total fund. Going forward, the commitment pace will be determined after considering a number of factors. The staff and asset consultant will continue to build and maintain an alternative investments portfolio that meets the objective of the overall fund.

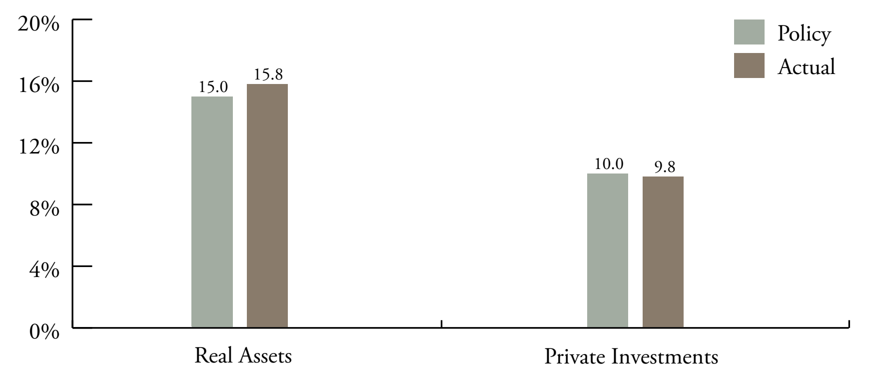
Portfolio Structure

The target allocation for the alternative investments portfolio remains at 25% of the total fund. This allocation is further divided into

two sub-asset classes: real assets and private investments. The real asset target allocation is 15% of the total fund and is further divided into three components: commodities, timber and real estate. The private investments sub-asset class has a target allocation of 10% of the total fund and is divided into two areas: private equity and private debt. At the end of the fiscal year, alternative investments made up 25.6% of the total fund, slightly above its target. At the sub-asset class level, the private investments portfolio was slightly below its target, at 9.8%, and the real assets portfolio was above its target, at 15.8%. The bar chart to the above right illustrates the actual allocation of real assets and private investments relative to the board's policy allocation as of June 30, 2010. As described above, the alternative investments portfolio is made up of five distinct components which demonstrate a conscious effort to assemble a group of assets with varying risk-return characteristics that will provide diversification at the total fund level. The table above shows the five investment components and their correlation to each other.

Alternative Investments Allocation

Policy vs. Actual (As a Percentage of the Total Fund)



Alternative Investments Correlations - 5 Year Period

Sub-Asset Class	Real Estate	Commodities	Timber	Private Equity	Private Debt
Real estate	1.00				
Commodities	0.19	1.00			
Timber	0.01	(0.06)	1.00		
Private equity	0.63	0.28	0.18	1.00	
Private debt	0.37	0.56	(0.01)	0.54	1.00

Market Overview

The alternative investments portfolio encompasses a number of markets some of which are liquid, where securities are publicly traded; and some that are illiquid, where activity takes place via private transactions. The following paragraphs briefly describe the markets for each of the five portfolio components and provide a perspective on how each performed during the fiscal year.

The commodities market represents a number of assets that can either be consumed, such as corn and wheat; or transformed into goods, such as oil, which can be processed into gasoline. Each commodity is characterized by their specific market dynamics and liquidity profile. The commodities market, as represented by the S&P GSCI (Standard & Poor's, Goldman Sachs Commodity Index), tracks 24 individual commodities within the energy, industrial metals, precious metals, agriculture and livestock sectors. Over the past year ending June 30, 2010, the index returned -5.4%. This negative return was due primarily to the energy component which makes up almost 70% of the index and returned -8.8% over this period. The agriculture component also contributed to the negative performance by returning -10.7% for the year. Not all components produced a negative return. Both the industrial and precious metal components had a positive result returning 20.4% and 33.7%, respectively.

The real estate market is made up of a broad group of assets. Real estate can be differentiated by property type; such as office, industrial, retail, multi-family and hotel, as well as by whether it is publicly traded or privately held. The benchmark for MOSERS' real estate portfolio is the Dow Jones REIT Index. This index measures the value of publicly traded REITs (Real Estate Investment Trusts) involved in a number of real estate sectors. For the fiscal year just ended, this index returned 55.7%, which was much improved over the

previous fiscal year when the index returned -45.3%. This range of returns demonstrates the volatility that the index has experienced over the past few years. MOSERS holds a portion of its real estate portfolio in private real estate. The NCREIF Property Index (The National Council of Real Estate Investment Fiduciaries Property Index) is used to track the returns of privately held properties in a variety of sectors. Over the past year,this index returned -1.5%, which was also much better than the previous year when the index returned -19.6%. It is interesting to note the difference in returns between the public REIT and private real estate indexes. Over shorter periods of time, as demonstrated over the past couple of years, the returns can be quite different. Over longer periods the returns should be similar since both indexes track the same sectors of the real estate market. This has been the case as demonstrated by the performance over the past 15 years when the Dow Jones REIT Index returned 10.0%, compared to the 8.8% return for the NCREIF Property Index.

The final component of the real assets sub-asset class is timber. Timber is known for its illiquidity and its long term investment horizon, but it also has some interesting characteristics that make it different from other asset classes. For example, each year the trees grow regardless of economic conditions. Over the past several quarters, as weakness in the housing sector persisted, the domestic demand for sawlogs declined resulting in lower prices. During this period, the tree can be left on the stump in order to avoid selling into weak markets. In the meantime, while the economy recovers, the trees are continuously growing and adding mass. Over the last twelve months, timber, as measured by the NCREIF Timberland Index, returned -3.5%. This index tracks the return of U.S. timberlands grown in the south, northwest and northeast regions. Over the last seven years, timber has performed well for the system. Over this period it has earned returns in excess of the domestic equity markets while doing so with lower return volatility.

The private investments portfolio, both private equity and private debt, had a good year in terms of both relative and absolute performance. Benchmarking this part of the portfolio is extremely challenging. It is difficult to collect enough relevant data to make a meaningful comparison to private investment strategies. Also, the data that is collected and published, tends to be disseminated several months after the end of the relevant period. As an alternate benchmark, one method used by the industry is to assign a risk premium to publicly traded equity securities. The idea behind this is that an investor should expect to receive a return above that offered by the public markets to compensate for the added risk and illiquidity associated with private investments. Using this methodology, MOSERS has placed a 3% premium over the return of the Standard & Poor's 500 Index. For the year ended June 30, 2010, this benchmark had a positive return of 17.4%.

In the years ahead, MOSERS will commit new money as appropriate to maintain its target allocation. In certain asset classes, such as private equity, private debt and private real estate, it is important to diversify by vintage year. Vintage year refers to the year in which the partnership makes its first investment. Committing capital consistently each year helps mitigate the risks associated with investing too much in a poor vintage year. The performance of the alternative investments portfolio, as well as the sub-asset classes and components will be discussed in the next section.

Performance

MOSERS has been investing in alternative investments since June 2002, when the board of trustees adopted a revised asset mix. In the years since adoption, the number of external managers hired to implement the strategy has grown to 29, as of June 30, 2010.

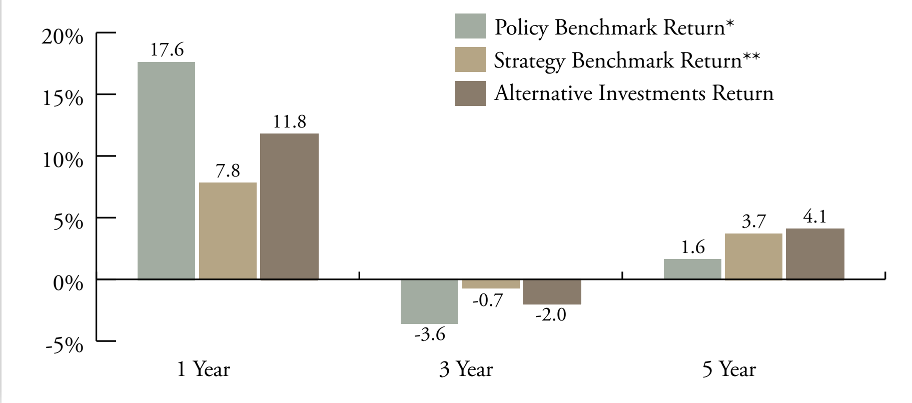
During the recently concluded fiscal year, the alternative investments portfolio operated in a more vibrant economic environment than that which was experienced in FY09. For the year ending June 30, 2010, the total alternatives portfolio returned 11.8%, which trailed the policy benchmark return of 17.6%.

The portfolio outperformed the strategy benchmark return of 7.8%, as illustrated in the bar chart to the right.

The return for the alternative investments portfolio is the aggregated return of the two sub-asset class portfolios. Over this period, the real assets portfolio returned 7.4%, while the private investments portfolio returned 19.3%. These returns are much improved over the previous fiscal year when the sub-asset class portfolios returned -19.8% and -27.3%, respectively. The returns, which varied greatly among the five portfolio components, ranged from -2.2% to 19.3%. Of the five components, all were positive with the exception of timber. Over the past two fiscal years, the returns within the alternative investments portfolio have been very volatile, underscoring the importance of asset class diversification and investing for the long term.

The policy benchmark for the alternative investments portfolio is a weighted average of the allocation mix and the policy benchmark of each component. The policy benchmark is designed to provide a return that could be achieved if the portfolio were to be invested passively. In order to determine the amount of value-added, the actual return is compared with the policy benchmark. Over the fiscal year just completed, the alternative investments portfolio underperformed the policy benchmark by 5.8%, which is the result of real estate performing below its respective policy benchmark.

Alternative Investments Return vs. Benchmark Returns



* As of 6/30/10, the alternative investments policy benchmark was comprised of the following components: 24% Wilshire REIT, 24% NCREIF Timberland, 40% S&P500 + 3%, and 12% GSCI.

** As of 6/30/10, the alternative investments strategy benchmark was comprised of the following components: 26.9% real estate consisting of NCREIF, STIF Return, S&P MLP TR Index, actual return of Bayview; 9.1% commodities consisting of S&P GSCI TR and S&P GSCI Gold Excess Return; 24.6% NCREIF Timberland 39.4%; and S&P 500 + 3%.

Alternative Investments - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception (July 2002)
Annualized return	11.8%	(1.7)%	4.0%	9.0%
Annualized standard deviation	6.74%	9.89%	8.47%	8.66%
Sharpe ratio	1.74	(0.35)	0.12	0.76
Excess return*	(5.9)%	1.9%	2.3%	1.5%
Beta*	0.17	0.35	0.37	0.46
Annualized alpha*	8.49%	(0.63)%	3.23%	5.25%
Correlation*	0.34	0.68	0.67	0.72

* *As compared to the alternative investments policy benchmark.*

The alternative investments portfolio outperformed the strategy benchmark by 4.0% during the fiscal year. The strategy benchmark seeks to attribute performance to decisions made by staff. These decisions would be to either deviate from the policy asset allocation or to utilize strategies that differ from the policy within predetermined ranges. This outperformance for the fiscal year can be attributed to all five components as each of them added value relative to the strategy benchmark. The strategy benchmark utilizes a set of indexes that closely match the characteristics of the actual underlying investments. For example, the real estate portfolio is partially invested in private real estate. Instead of using the Dow Jones Wilshire REIT Index, the benchmark for the real estate component, the strategy benchmark for private real estate investments is the NCREIF Property Index.

Statistical Performance

The table above displays the statistical performance data (net of fees) of the alternative investments portfolio as of June 30, 2010.

REAL ASSETS

Market Value

As of June 30, 2010, the value of the real assets sub-asset class had grown to $1.1 billion, representing 15.8% of the total fund. The portfolio is made up of three separate and distinct components with the following market values and percentages of the total fund: commodities, $157.9 million - 2.3%; timber, $426.8 million - 6.3%; and real estate, $487.5 million - 7.2%. Compared to their individual target weights, commodities are slightly underweight while both timber and real estate are above their target allocation.

Summary of Portfolio

The target allocation for real assets is 15% of the total fund. The actual allocation can move within a range of 10% to 20%. At the end of the fiscal year, the allocation of each component and the overall real assets portfolio were close to target.

The commodities component of the real assets portfolio is implemented through an account managed by NISA Investment Advisors. The manager gains exposure to the underlying commodities through the use of exchange-traded futures contracts and/or swap agreements. Considered together, the futures contracts make up a portfolio that is benchmarked against the S&P GSCI. From time to time, NISA or MOSERS will attempt to add incremental return as market opportunities present themselves.

MOSERS' timber portfolio is made up of a number of properties located in the southeast and northwest regions of the U.S., as well as properties in Australia, New Zealand and South America. By holding both domestic and global timberlands, the portfolio is well diversified from a geographic standpoint. The portfolio is also diversified by age and species. The strategy is implemented by three Timber Investment Management Organizations (TIMOs). Returns from the timber component are expected to be attractive while providing diversification and inflation protection. As previously mentioned, timber, unlike most asset classes, grows regardless of economic conditions. When the price of sawlogs are weak, the TIMOs can manage the properties so that the trees can continue to grow and add mass.

The real estate component is composed of a number of private real estate investments as well as a few select strategies that exhibit risk-return characteristics that are similar to those of real estate. Private real estate is a significant part of the strategy. Over longer periods of time, private opportunistic real estate funds should provide returns in excess of those offered by publicly-traded REITs. MOSERS expects to add additional return due to the opportunistic nature of the investments, the skill of the manager and the illiquidity premium associated with owning private assets. In addition to private real estate, the portfolio also contains assets that have characteristics similar to those of real estate. This means that the investments provide current income as well as the potential for moderate capital appreciation. Currently, investments in this category include Master Limited Partnerships (MLPs), residential mortgages, oil and gas assets and private debt investments. As previously mentioned, the real estate component is benchmarked against the Dow Jones Wilshire REIT Index. For the one-year period ended June 30, 2010, the index returned a stunning 55.7%, while the real estate component returned a respectable 17.9%. The underperformance can be attributed to a lack of REIT exposure.

As mentioned in the previous annual report, MOSERS divested its REIT holdings a few years ago because staff believed they were richly valued. This decision to exit the REIT market has added value. Over the past three years ending June 30, 2010, REITs have an annualized return of -10.3%. Over this same period, the real estate component has declined by 5.4% per year. While it is disappointing that the portfolio's return is negative over this period, a decline of much greater significance was avoided. Since the last annual report there has been one change in implementation worth noting. At the beginning of the fiscal year, staff began managing a MLP portfolio with the objective of matching the return of the S&P MLP Index. Since the inception of the portfolio, a period that involved some portfolio restructuring, the internally managed portfolio returned 47.9%. This was slightly ahead of the benchmark.

Statistical Performance

The table to the right displays the statistical performance data (net of fees) of the real assets portfolio as of June 30, 2010.

Investment Advisors

The real assets strategy is implemented through 14 distinct portfolios managed by 11 external investment firms and staff.

At June 30, 2010, the real assets allocation was slightly above its 15% target. Within the sub-asset class, timber and real estate were slightly above target while commodities were a bit below target. For the most part, the specific investments within the real assets portfolio remained in place throughout the fiscal year. As previously mentioned, MOSERS' internal staff began managing a passive MLP portfolio replacing one of the system's external investment managers. The table to the right shows the investment advisors in place as of June 30, 2010.

Real Assets - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception (July 2002)
Annualized return	7.4%	0.7%	4.5%	9.2%
Annualized standard deviation	7.64%	9.25%	8.54%	8.90%
Sharpe ratio	0.95	(0.11)	0.30	0.77
Excess return*	(10.5)%	2.6%	3.5%	2.0%
Beta*	0.15	0.26	0.28	0.39
Annualized alpha*	4.76%	1.12%	4.79%	6.07%
Correlation*	0.23	0.56	0.53	0.64

* *As compared to the real assets policy*

Real Assets - Investment Advisors

Investment Advisors	Style	Portfolio Market Value
Bayview Asset Management	Residential mortgages	$ 28,772,165
Beta/alpha program	Active	7,062,812
Blackstone Real Estate Advisors	Active real estate	127,768,949
The Campbell Group	Northwestern U.S. timber	46,853,930
CarVal Investors	Distressed investments	47,450,000
Global Forest Partners	International timber	150,020,535
Harvest Fund Advisors	Active MLP	86,144,824
Internal Staff	Active long-duration U.S. Treasuries	92,851,636
Internal Staff	Cash	5,172,932
Internal Staff	Passive MLPs	91,028,927
Merit Energy	Oil & gas	7,289,830
NISA Investment Advisors	Enhanced GSCI	150,819,442
Oaktree Capital Management	Active real estate	27,647,277
Resource Management Service	Southeastern U.S. timber	134,659,140
TCW-Energy and Infrastructure Group	Mezzanine debt, diversified energy	68,611,822
Total		$ 1,072,154,221

Brokerage Activity

The table below illustrates the brokerage activity occurring within the real assets portfolio during the fiscal year.

Real Assets - Brokerage Activity

Broker Firm	Shares Traded	Dollar Volume of Trades	Commissions Dollar Amount	Commissions Value Per Share
Barclays Capital, Inc.	44,375	$ 999,769	$ 1,331	0.03
Blue Trading	11,509	552,554	345	0.03
Citigroup Global Markets, Inc.	40,710	1,115,495	762	0.02
Credit Suisse	32,900	858,841	987	0.03
Fidelity Capital Markets	12,500	306,625	375	0.03
First Clearing, LLC	44,000	1,240,645	1,320	0.03
Hudson Securities, Inc.	12,000	237,360	360	0.03
Instinet Corp.	1,419,522	35,879,345	14,195	0.01
J.P. Morgan Clearing Corp.	13,029	105,045	466	0.04
Jones Trading Institutional Services	152,983	2,608,221	4,589	0.03
Madison Williams & Co.	91,880	2,544,980	2,756	0.03
Merlin Securities, LLC	3,352,389	81,433,638	34,078	0.01
Morgan Stanley & Co., Inc.	232,551	6,467,369	6,977	0.03
Oppenheimer & Co., Inc.	70,570	2,086,956	2,117	0.03
Penson Financial Services, Inc.	33,000	799,269	990	0.03
Pershing, LLC	12,500	192,120	375	0.03
Pickering Energy Partners	62,663	2,252,482	1,880	0.03
Raymond James & Assoc., Inc.	39,472	1,184,977	1,184	0.03
UBS Securities, LLC	103,114	2,662,061	3,093	0.03
Wells Fargo Securities, LLC	212,519	7,686,362	6,476	0.03
Wunderlich Securities, Inc.	481,381	13,666,035	14,441	0.03
Total	6,475,567	$ 164,880,149	$ 99,097	0.02

Soft Dollar Expenditures

There were no commissions directed for soft dollars credits during the fiscal year ended June 30, 2010.

PRIVATE INVESTMENTS

Market Value

The private investments allocation had a value of $669.1 million as of June 30, 2010, representing 9.8% of the total fund. The value of the private equity component was $383.7 million, and the private debt component was valued at $285.4 million.

Summary of Portfolio

The private investments component is made up of a broad range of strategies each with its own risk-return profile. The objective of the private investments allocation is to achieve the higher returns associated with opportunistic strategies due in part to the illiquidity premium inherent with these investments. In addition, the portfolio provides diversification at the total fund level. This segment of the portfolio is expected to produce returns in excess of the public equity markets over a full-market cycle and therefore is assigned a policy benchmark of the S&P 500 Index plus 3%.

During the latest fiscal year, several commitments were made in the private investments portfolio. These commitments were made to a range of strategies. Most involved new strategies and new relationships while one was made to a strategy with an existing manager. These new strategies should serve MOSERS well in terms of earning attractive returns while providing further diversification to the total fund. Early in FY10, an investment was made in the royalty streams of established prescription drugs. Investors in these instruments have the contractual right to receive payment based on drug sales over a defined period. MOSERS' investment was made in two forms, one in a fund of existing drug royalties and the second in a fund that will invest in these instruments over the next few years. Drug royalties have several attractive qualities, one of which is the differentiated risk-return risk profile compared with more typical private equity investments.

Another new relationship was established with a firm focused on direct-secondary investments. This strategy involves purchasing the securities of rapidly growing, best-of-breed technology companies. These investments are considered secondary because they are typically bought from the primary owner, such as a company founder, company employees or other long-term investors. By targeting established revenue-producing companies, the strategy seeks to generate compelling returns while assuming much less risk than earlier investors.

The final new commitment was made to a partnership that specializes in buyout transactions in the health care and life sciences industry. The health care industry represents a large portion of the U.S. economy. It is also highly fragmented which provides a vast opportunity to build high quality companies. The industry should have a bright future given the advances in technology and the demographic trends in place. Finally, this sector has been less sensitive to the economic cycle when compared to other sectors. Each of these new strategies represents a market segment with several attractive qualities where the MOSERS portfolio has limited private equity exposure.

In addition to the new investments, MOSERS committed capital to a distressed debt partnership that is managed by a firm with a long and successful history with MOSERS. In the years ahead, as large quantities of debt are restructured or refinanced, this strategy may offer an excellent risk-return profile. MOSERS looks to participate in this opportunity by owning securities that typically hold a superior claim on the assets of a company. These underlying assets should provide a degree of downside protection in the event of another economic downturn.

As you can see, the commitments made during FY10 were very diverse in nature. These investments, in conjunction with the remainder of the portfolio, will seek to provide returns in excess of those offered in the public equity markets. Furthermore, the alternative investments asset class will play an important role in helping the overall fund meet its objective.

Statistical Performance

The table to the right displays the statistical performance data (net of fees) of the private investments portfolio as of June 30, 2010.

Investment Advisors

The private investments component consists of 30 separate fund investments managed by 20 external investment managers. During FY10, a number of commitments were made as described in the previous section. At the end of the fiscal year, private investments accounted for 9.8%, of the total portfolio. Of this allocation, private equity and debt made up 5.6% and 4.2%, respectively. Typically, the private equity portion would comprise a greater share of the private investments portfolio. The higher allocation to private debt reflects the opportunity available in the current environment. MOSERS plans to continue investing in this sub-asset class in an effort to sustain the target allocation of 10%. The advisors in this sub-asset class as of June 30, 2010, are listed in the table to the right.

Brokerage Activity

There was no brokerage activity within the private investments portfolio during this fiscal year.

Soft Dollar Expenditures

There were no commissions directed for soft dollars credits during the fiscal year ended June 30, 2010.

Private Investments - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception (Sept. 2002)
Annualized return	19.3%	(6.6)%	1.7%	11.1%
Annualized standard deviation	9.10%	12.92%	10.68%	12.63%
Sharpe ratio	2.11	(0.64)	(0.12)	0.69
Excess return*	1.9%	(0.2)%	0.5%	1.0%
Beta*	0.23	0.48	0.51	0.65
Annualized alpha*	14.11%	(3.75)%	1.02%	4.44%
Correlation*	0.42	0.74	0.75	0.74

** As compared to the total private investments policy*

Private Investments - Investment Advisors

Investment Advisors	Style	Portfolio Market Value
Actis Capital	Emerging markets - global	$ 17,228,839
Alinda Capital Partners	Corporate buyout; infrastructure	27,196,683
Axiom Asia Private Capital	Emerging markets - fund-of-funds	4,551,152
Bridgepoint Capital Partners	Corporate buyout - foreign	27,649,546
CarVal Investors	Distressed investments	47,450,000
Catterton Partners	Corporate buyout	40,968,136
DDJ Capital Management	Distressed debt	15,448,413
Development Partners Int'l	Emerging markets, Africa	4,869,016
DRI Capital	Royalties	41,316,214
Internal Staff*	Cash	993,847
JLL Partners	Corporate buyout	40,152,499
MHR Fund Management	Distressed debt	69,478,881
Millennium Technology Ventures	Direct secondary	1,000,000
New Mountain Capital	Corporate buyout	14,252,241
NISA Investment Advisors*	Equity futures	4,371,590
Oaktree Capital Management	Distressed debt/European debt	152,088,238
OCM/GFI Power Opportunities	Corporate buyout	11,345,602
Parish Capital Partners	Corp. buyout - fund-of-funds	44,892,142
Silver Creek Management	Special situations	46,448,874
Silver Lake Partners	Corporate buyout	24,572,792
Veritas Capital Partners	Corporate buyout	32,860,838
Total		$ 669,135,543

** Temporary placeholder for future capital drawdowns to private equity managers.*

BETA/ALPHA PROGRAM

This program began as a result of MOSERS' investment belief that returns from these two components should be managed separately.

The beta portion of the program is managed by NISA Investment Advisors. NISA uses futures and/or total return swaps to gain market exposure to various predefined indices.

The alpha program is a group of active managers with little or no systematic beta exposure. The objective of the alpha component is to provide a net of fees alpha return of 4% with similar to slightly higher volatility. This return can then be applied to various asset classes.

The combination of the two components produces an efficient total return and also provides MOSERS a great deal of flexibility in the management of the fund.

BETA PROGRAM

Market Value

The total notional exposure was $1.6 billion as of June 30, 2010. The beta component contained total return swaps and futures as of June 30, 2010. MOSERS is utilizing the beta component within the domestic equity, international equity, commodities and core fixed income sub-asset classes.

Summary of Program

The beta component was added to the total fund in FY05. The beta manager seeks market exposure in the most cost efficient manner. The beta manager seeks to produce a market return gross of the financing cost to gain beta exposure. The manager's goal is to provide market exposure.

Statistical Performance

The impact of the exposures is contained in the portfolios where the beta resides. Further information regarding swaps and futures can be found in the *Notes to the Financial Statements* on page 41.

Investment Advisors

NISA Investment Advisors is the only manager in the beta program. The table below summarizes our investments within the beta pool as of June 30, 2010. Management fee information may be found on page 76-77 of this report.

Beta Program - Investment Advisors

Investment Advisors	Style	Portfolio Notional Value
NISA Investment Advisors	Synthetic beta exposure	$ 1,597,868,546

ALPHA PROGRAM

Market Value

The alpha program allocation was $1.6 billion or 23.7% of the total fund as of June 30, 2010.

Summary of Portfolio

The alpha program portfolio was added to the total fund in FY05. Alpha program managers utilize skill-based investment strategies, which allow them to take advantage of periodic inefficiencies that may exist within the market. Alpha program managers seek to produce consistent returns in various economic environments. The ultimate goal within the alpha program is to provide

consistent alpha with little market exposure to other areas of the fund. MOSERS utilizes several different strategies within the alpha program including relative value, arbitrage, and event driven. This portfolio targets the return of cash plus 4% net of fees over long periods of time.

Statistical Performance

The table to the right displays the statistical performance data of the alpha program portfolio (net of fees related to the beta program) as of June 30, 2010.

Investment Advisors

The alpha program was started in FY05. Blackstone Alternative Asset Management, an existing fund-of-funds manager, was transferred into the alpha program. The following managers were hired and added to the pool in FY05: AQR Capital Management, Barclays Global Investors, Bridgewater Associates, and Pacific Alternative Asset Management Company (PAAMCO). Aetos Capital was also hired in FY05 as an additional manager in the alpha program. Aetos constructed a customized portfolio of core hedge funds that would later become the basis for MOSERS direct hedge fund investment program. On January 1, 2009, MOSERS internal staff assumed responsibility for the oversight of the hedge funds in the customized fund-of-funds portfolio. The table above summarizes the investments with hedge fund managers as of June 30, 2010. Management fee information may be found on pages 76-77 of this report.

Alpha Program - Statistical Performance

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception (Oct. 2004)
Annualized return	11.2%	(0.4)%	2.2%	2.5%
Annualized standard deviation	3.20%	6.10%	4.93%	4.69%
Sharpe ratio*	3.45	(0.34)	(0.15)	(0.09)
Beta as compared to the S&P 500	0.15	0.16	0.16	0.16
Beta as compared to the Barclays Aggregate	0.14	0.26	0.09	0.04

* *Sharpe ratio equals the annualized alpha program returns less the risk-free rate divided by the annualized standard deviation. Fees related to the beta program also reflect the risk-free rate and are therefore not considered in this calculation.*

Alpha Program - Investment Advisors

Investment Advisors	Style	Portfolio Market Value
AQR Capital Management	Multi-strategy	$ 239,868,287
Blackstone Alternative Asset Management	Fund-of-funds	219,509,748
Blackstone Distressed Securities Advisors	Long/short credit	2,945,894
Brevan Howard Capital Management	Global macro	51,240,296
Bridgewater Associates	Global macro	103,010,585
Claren Road Asset Management	Long/short credit	49,387,891
Davidson Kempner Capital Management	Event driven	77,490,844
Diamondback Capital Management	Long/short equity	78,329,206
Elliott International Capital Advisors	Multi-strategy	51,728,939
Eton Park Capital Management	Multi-strategy	51,965,081
Farallon Capital Management	Multi-strategy	47,597,246
HBK Investments	Multi-strategy	32,713,780
King Street Capital Management	Credit driven	79,769,323
Moon Capital Management	Long/short equity	799,740
Pacific Alternative Asset Management Co.	Fund-of-funds	221,457,729
Perry Capital	Multi-strategy	452,473
Silver Point Capital	Credit driven	52,518,693
Wellington Hedge Management	Long/short equity	1,477,678
Alpha program cash	Short-term cash	248,559,051
Total		$ 1,610,822,484

SECURITIES LENDING SUMMARY

In FY10, MOSERS earned net income of $1,204,378 through its securities lending programs. MOSERS lends its domestic equities, international equities, and domestic fixed income to a borrower that manages an agent lending program.

In an agent lending program, a large custodial bank or investment banking institution, acts on behalf of the beneficial owner to lend its securities. This type of lending program is essentially a “one-stop shopping” process in which all operational aspects of the program are centered exclusively with one entity. The agent lender is responsible for making the loans to various broker-dealers, investing the cash collateral associated with the loaned securities, marking the loans and collateral to market on a daily basis, and, in most cases, indemnifying the lender against the default of a broker-dealer to whom they have loaned securities on behalf of the beneficial owner.

Deutsche Bank replaced Credit Suisse as the agent lender of MOSERS’ securities for this program in the second quarter of 2010.

Domestic Equity

MOSERS generated total net income from the domestic equity agent-lending program of $864,401 in FY10. The income from this program was $731,844 less than FY09 stemming from a decrease in the average on loan balance, utilization rate, and margin basis points.

The table below contains the domestic equity securities lending program information from FY02 through FY10.

International Equity

MOSERS generated total net income from the international equity securities lending program of $109,946 in FY10. The income earned decreased from FY09 by $400,676 due to a decrease in the average on loan balance, margin basis points, and utilization rate.

The international equity securities lending program information from FY02 through FY10 is shown below.

Securities Lending - Domestic Equity

Year	Average Lendable	Average on Loan	Average Utilization	Return Added to Lendable Domestic Equities (Basis Points)	Net Income
FY10	$ 321,114,801	$ 83,944,408	26.1%	26.9	$ 864,401
FY09	307,082,718	114,261,769	37.2	52.0	1,596,245
FY08	440,025,347	195,971,154	44.5	36.6	1,611,536
FY07	711,856,029	281,338,681	39.5	14.0	994,416
FY06	856,712,658	377,314,359	44.0	14.2	1,218,245
FY05	775,821,287	247,175,198	31.9	8.4	648,218
FY04	1,552,186,713	176,626,818	11.4	7.2	1,114,144
FY03	1,420,413,446	234,776,497	16.5	10.6	1,504,152
FY02	2,347,223,937	254,035,429	10.8	8.6	2,027,903

Securities Lending - International Equity

Year	Average Lendable	Average on Loan	Average Utilization	Return Added to Lendable International Equities (Basis Points)	Net Income
FY10	$ 277,251,343	$ 19,736,528	7.1%	4.0	$ 109,946
FY09	342,215,198	32,267,851	9.4	14.9	510,622
FY08	467,893,205	56,944,925	12.2	15.5	726,565
FY07	485,230,034	41,033,858	8.5	8.1	395,017
FY06	483,512,648	48,077,237	9.9	12.9	605,315
FY05	360,790,809	39,881,555	11.1	13.2	476,226
FY04	462,783,570	53,655,836	11.6	9.7	446,880
FY03	544,976,709	36,820,686	6.8	13.7	744,985
FY02	728,081,371	70,020,289	9.6	15.5	1,130,928

Domestic Fixed Income

MOSERS generated total net income from the domestic fixed income securities lending program of $230,031 during FY10. The income from this program decreased by $3,492,492 from FY09, primarily due to a decrease in the average on loan balance, utilization rate, and margin basis points.

The table below presents information for the domestic fixed income securities lending program for FY02 through FY10.

Securities Lending - Domestic Fixed Income

Year	Average Lendable	Average on Loan	Average Utilization	Return Added to Lendable Fixed Income (Basis Points)	Net Income
FY10	$ 836,242,270	$ 190,547,907	22.8%	2.8	$ 230,031
FY09	859,512,525	517,356,516	60.2	43.3	3,722,523
FY08	1,082,813,165	894,372,380	82.6	56.4	6,104,526
FY07	950,069,746	695,743,093	73.2	15.5	1,469,860
FY06	1,183,366,350	776,959,063	65.7	15.7	1,853,181
FY05	1,091,262,589	776,038,981	71.1	19.5	2,126,695
FY04	1,231,730,491	1,043,891,521	84.7	20.1	2,475,630
FY03	969,156,824	757,537,477	78.2	17.6	1,707,400
FY02	899,565,271	720,912,307	80.1	19.5	1,750,764

COMMUNICATION

Excellent customer service begins with reliable communication that evolves over time. MOSERS is dedicated, determined and committed to incorporating technology and practical innovation to improve communication with our members.

Taking a moment to listen is a golden opportunity

ACTUARY'S CERTIFICATION LETTER

GRS

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October 21, 2010

The Board of Trustees
Missouri State Employees' Retirement System
907 Wildwood Drive
Jefferson City, Missouri 65102

Dear Board Members:

The basic financial objective of the Missouri State Employees' Retirement System (MOSERS) is to establish and receive contributions which:

(1) when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Missouri citizens, and which

(2) when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of MOSERS.

In order to measure progress toward this fundamental objective, MOSERS has annual actuarial valuations performed. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the normal cost and level percent of payroll amortization of unfunded actuarial accrued liabilities over a reasonable period. The latest completed actuarial valuations were based upon data and assumptions as of June 30, 2010. These valuations indicate that the contribution rates for the fiscal year ending June 30, 2012, adopted by the board of trustees for the benefits scheduled to be in effect on and after July 1, 2010, meet the basic financial objective. These contribution rates are 13.97% of payroll for 53,478 General State Employees, and 57.30% of payroll for 402 Judges.

The actuarial valuations are based upon financial and participant data which is prepared by retirement system staff, assumptions regarding future rates of investment return, salary increases, and inflation, and assumptions regarding rates of retirement, turnover, death, and disability among MOSERS' members and their beneficiaries. The data is reviewed by us for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The demographic assumptions for members hired before January 1, 2011 were adopted by the board of trustees in March, 2008 based upon recommendations made in an experience study covering the period from 2003 to 2007. The demographic assumptions for members hired on or after January 1, 2011 were based upon fiscal notes filed in July 2010. The economic assumptions were adopted by the board of trustees in September, 2001 and amended and reaffirmed in March, 2008 and subsequently reviewed in July 2010. The assumptions and methods used in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

The benefit structure is outlined in this section of the annual report. Benefit provisions evaluated were changed for members hired on or after January 1, 2011. We provided the information used in the supporting schedules in the *Actuarial Section* and the *Schedules of Funding Progress* in the *Financial Section*, as well as the employer contribution rates shown in the *Schedule of Employer Contributions* in the *Financial Section*.

Based upon the valuation results, it is our opinion that the Missouri State Employees' Retirement System continues to operate in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,

Norman L. Jones, F.S.A.
Senior Consultant & Actuary

David T. Kausch, F.S.A.
Senior Consultant & Actuary

Brad Lee Armstrong, A.S.A.
Senior Consultant & Actuary

SUMMARY OF ACTUARIAL ASSUMPTIONS

Economic Assumptions

The investment return rate used in the valuations was 8.5% per year, compounded annually (net after investment expenses). This assumption is used to account for the fact that equal amounts of money payable at different points in time in the future do not have the same value presently.

Pay increase assumptions for individual active members are shown in the following tables. Part of the assumption for each age is for merit and/or seniority increase, and the other 4% recognizes wage inflation. This assumption is used to project a member's current salary to the salaries upon which benefits will be based. The active member payroll is assumed to increase 4% annually, which is the portion of the individual pay increase assumptions attributable to wage inflation. For the 2010 valuation only, payroll is assumed to grow 0% the first year, then 4% annually thereafter to reflect the statewide temporary pay freeze.

The number of active members in the MSEP is assumed to remain constant although certain new hires on or after July 1, 2002, will participate in the College and University Retirement Plan (CURP). For judges, the number of active members is assumed to continue at the present number. Active and retired member data is reported as of May 31. It is assumed for valuation purposes that there is no turnover among members and no new entrants during the month of June. New entrants after December 31, 2010, assumed demographic patterns are based on the demographics of active members hired within the last five years.

The annual cost-of-living adjustment (COLA) is assumed to be 4%, on a compounded basis, when a minimum COLA of 4% is in effect. When no minimum COLA is in effect, price inflation is assumed to be 3.2% and the annual COLA is assumed to be 2.56% (80% of 3.2%), on a compounded basis.

Noneconomic Assumptions

The mortality table for post-retirement mortality used in evaluating allowances to be paid was the 1971 Group Annuity Mortality Table, projected to the year 2000, with a two year setback for men and a six year age setback for women. Disabled mortality tables are the healthy mortality tables set forward ten years. Related values are shown on page 106. This assumption is used to measure

Summary of Actuarial Assumptions

MSEP - Separations From Active Employment Before Service Retirement and Individual Pay Increase Assumptions - June 30, 2010

		Percent of Active Members Separating Within the Next Year						Pay Increase Assumptions for an Individual Employee		
		Withdrawal		Death*		Disability				
Sample Ages	Years of Service	Men	Women	Men	Women	Men	Women	Merit and Seniority**	Base (Economy)	Increase Next Year
	0	23.8%	26.9%							
	1	18.9	20.5							
	2	15.3	15.4							
	3	12.8	12.5							
	4	11.8	10.9							
20	+5	11.8	10.9	.04%	.03%	.16%	.30%	3.5%	4.0%	7.5%
25		11.8	10.9	.05	.04	.16	.30	2.9	4.0	6.9
30		10.0	10.0	.06	.04	.16	.30	2.2	4.0	6.2
35		7.5	7.6	.08	.05	.21	.30	1.6	4.0	5.6
40		5.6	5.6	.11	.07	.26	.32	1.2	4.0	5.2
45		4.2	4.4	.17	.09	.34	.38	0.9	4.0	4.9
50		3.4	3.9	.31	.14	.49	.57	0.7	4.0	4.7
55		3.0	3.3	.54	.24	1.07	.89	0.5	4.0	4.5
60		2.6	3.0	.83	.44	1.50	1.50	0.4	4.0	4.4
65		2.5	3.0	1.31	.71	1.60	1.70	0.3	4.0	4.3

* *2% of the deaths in active service are assumed to be duty-related*

** *Does not apply to members of the General Assembly*

the probabilities of each benefit payment being made after retirement.

The probabilities of age and service retirement are shown on page 106. For the MSEP, it was assumed that each member will be granted one half year of service credit for unused leave upon retirement and military service purchases.

The probabilities of withdrawal from service, disability, and death-in-service are shown for sample ages below. The entry age normal actuarial cost method of valuation was used in determining liabilities and normal cost. The normal cost was based on the weighted average of the MSEP 2000 active member normal cost and the MSEP 2011 active member normal cost for the projected payroll composition of the active member population expected to be present during the fiscal year ended June 30, 2012. Differences in the past between assumed experience and actuarial experience ("actuarial gains and losses") become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments, (principal & interest) which are level percents of payroll contributions.

The amortization of the unfunded actuarial accrued liability is based on a 30-year amortization period, level percent of payroll amortization. The amortization is based on the projected unfunded actuarial accrued liability at the beginning of the fiscal year. This method was first used in the June 30, 2010 valuation.

Employer contribution dollars were assumed to be paid in equal installments throughout the employer's fiscal year.

Valuation assets recognize assumed investment return fully each year. Differences between actual and assumed investment return are phased in over a closed five-year period. Valuation assets are not permitted to deviate from the market value by more than 25% for the June 30, 2010 valuation. This limit will change to 20% thereafter. It is assumed that among active members 80% are married at retirement, 70% of those dying in active service are married, and men are three years older than their spouses.

The liabilities for active members hired on or after July 1, 2000 (April 26, 2005 for administrative law judges) were based on MSEP 2000 benefits. The liabilities for active members hired before July 1, 2000 for elected officials, the General Assembly, and uniformed water patrol were based on MSEP benefits. All others were based on MSEP 2000 benefits. The BackDROP was only explicitly valued for those assumed to receive MSEP 2000 benefits for members hired prior to January 1, 2011.

The data about persons now covered and about present assets were furnished by the system's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

Summary of Actuarial Assumptions

Judicial Plan - Separations From Active Employment Before Service Retirement and Individual Pay Increase Assumptions - June 30, 2010

	Percent of Active Members Separating Within the Next Year						Pay Increase Assumptions for an Individual Employee		
	Withdrawal		Death		Disability				
Sample Ages	Men	Women	Men	Women	Men	Women	Merit and Seniority	Base (Economy)	Increase Next Year
25	4.5%	4.5%	.05%	.04%	.01%	.01%	1.6%	4.0%	5.6%
30	4.0	3.7	.06	.04	.02	.01	1.2	4.0	5.2
35	2.8	2.6	.08	.05	.03	.02	0.9	4.0	4.9
40	2.0	2.1	.11	.07	.04	.03	0.4	4.0	4.4
45	1.5	1.9	.17	.09	.05	.04	0.3	4.0	4.3
50	1.5	1.7	.31	.14	.08	.07	0.2	4.0	4.2
55	1.5	1.2	.54	.24	.13	.12	0.2	4.0	4.2
60	1.2	0.6	.83	.44	.20	.19	0.0	4.0	4.0
65	0.9	0.4	1.31	.71	.20	.19	0.0	4.0	4.0

Summary of Actuarial Assumptions

All Plans - Single Life Retirement Values - June 30, 2010

Sample Attained Ages	Present Value of $1/Month the First Year (with 50% Joint & Survivor) Increasing 4.0%/2.56% Yearly: Service Men	Service Women	Disability Men	Disability Women	Present Value of $1/Month the First Year Increasing 2.56% Yearly: Service Men	Service Women	Disability Men	Disability Women	Future Life Expectancy (Years): Service Men	Service Women	Disability Men	Disability Women
40	$212.00	$213.63	$199.71	$201.13	$181.06	$186.39	$162.92	$171.00	39.41	43.25	30.06	33.73
45	204.46	206.44	189.78	190.96	172.85	179.57	151.37	160.74	34.67	38.46	25.67	29.17
50	195.12	197.32	177.89	178.76	162.92	171.00	137.98	148.85	30.06	33.73	21.50	24.82
55	183.85	186.16	163.79	164.21	151.37	160.74	122.55	135.04	25.67	29.17	17.57	20.70
60	170.40	178.76	147.78	147.15	137.98	148.85	105.68	119.26	21.50	24.82	13.99	16.82
65	154.52	157.00	130.73	128.15	122.55	135.04	88.88	102.25	17.57	20.70	10.91	13.32
70	136.51	138.80	112.73	108.63	105.68	119.26	72.36	85.58	13.99	16.82	8.29	10.36
75	117.44	119.04	94.96	89.08	88.88	102.25	57.73	69.20	10.91	13.32	6.23	7.83
80	97.96	99.30	78.49	71.52	72.36	85.58	45.83	55.16	8.29	10.36	4.70	5.89
85	79.72	80.24	63.33	56.81	57.73	69.20	35.81	43.70	6.23	7.83	3.51	4.44

Summary of Actuarial Assumptions

MSEP (Normal Retirement Pattern) - Percent of Eligible Active Members Retiring Next Year - June 30, 2010

For Members Hired Prior to January 1, 2011: Retirement Age	MSEP (closed plan) Year of Eligibility: 1st Year	2nd Year	3rd Year	MSEP 2000 Year of Eligibility: 1st Year	2nd Year	3rd Year	For Members Hired On or After January 1, 2011, MSEP 2011: Retirement Age	Year of Eligibility
48	20%			27%				
49	20	10%		27	14%			
50	20	10	8%	27	14	18%		
51	20	10	8	27	14	18		
52	20	10	8	27	14	18		
53	20	10	8	27	14	18		
54	20	10	8	27	14	18		
55	25	10	12	27	14	25	55	45%
56	20	10	12	27	14	25	56	45
57	20	10	12	22	14	20	57	35
58	20	10	30	22	14	20	58	35
59	20	10	30	22	14	20	59	30
60	25	10	30	25	14	25	60	35
61	20	10	30	20	14	20	61	25
62	30	15	50	20	22	35	62	40
63	20	12	40	15	20	30	63	30
64	20	12	40	20	20	20	64	20
65	30	15	50	25	20	30	65	30
66	20	12	40	20	20	25	66	25
67	20	12	40	20	20	20	67	20
68	20	12	40	20	20	20	68	20
69	20	12	40	20	20	20	69	20
70	20	12	40	20	20	20	70	20
71	20	12	40	20	20	20	71	20
72	20	12	40	20	20	20	72	20
73	20	12	40	20	20	20	73	20
74	20	12	40	20	20	20	74	20
75	100	100	100	50	50	50	75	50
76	100	100	100	50	50	50	76	50
77	100	100	100	75	75	75	77	75
78	100	100	100	100	100	100	78	100

Summary of Actuarial Assumptions

MSEP (Early Retirement Pattern) - Percent of Eligible Active Members Retiring Next Year - June 30, 2010

For Members Hired Prior to January 1, 2011		For Members Hired On or After January 1, 2011	
Retirement Age	MSEP & MSEP 2000 Year of Eligibility	Retirement Age	MSEP 2011 Year of Eligibility
57	3%		
58	4		
59	4		
60	5		
61	7		
62	10	62	10%
63	10	63	10
64	10	64	10
65	50	65	50
66	50	66	50
67	50		
68	50		
69	50		
70	50		
71	50		
72	50		
73	50		
74	50		
75	50		
76	100		

Summary of Actuarial Assumptions

Judicial Plan - Percent of Eligible Active Members Retiring Next Year - June 30, 2010

For Members Hired Prior to January 1, 2011			For Members Hired On or After January 1, 2011		
Retirement Age	Percent Men	Percent Women	Retirement Age	Percent Men	Percent Women
55	10%	8%			
56	10	8			
57	10	8			
58	10	8			
59	10	8			
60	10	15			
61	5	10			
62	10	15	62	30%	35%
63	5	10	63	20	20
64	5	10	64	15	20
65	20	40	65	30	50
66	25	25	66	25	25
67	20	25	67	20	25
68	20	25	68	20	25
69	30	50	69	30	50
70	100	100	70	100	100

Summary of Actuarial Assumptions

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS – JUNE 30, 2010

Pay Increase Timing

- Middle of fiscal year for MSEP
- Beginning of fiscal year for judges.

Decrement Timing

Decrements of all types are assumed to occur mid-year.

Eligibility Testing

Eligibility for benefits is determined based upon age at nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Benefit Service

Exact fractional service is used to determine the amount of benefit payable.

Decrement Relativity

Decrement rates are used directly from the experience study, without adjustments for multiple decrement table effects.

Decrement Operation

Disability and mortality decrements do not operate during the first five years of service. Disability and withdrawal do not operate during normal retirement eligibility.

Normal Form of Benefit

The assumed normal form of benefit is the straight life form for the MSEP 2000 with 50% continuing to an eligible surviving spouse for the MSEP. No adjustment has been made for post-retirement option election changes. For judges, the assumed normal form of benefit is the straight-life form with 50% continuing to an eligible surviving spouse for member hired prior to January 1, 2011.

Other Liability Adjustments

MSEP 2000 Benefits for Active Employees

- Normal retirement form of payment adjustment: 0.994
- Early retirement form of payment adjustment: 0.993

Pre-Retirement Survivor Benefits for Spouse of Terminated-Vested Member

Age	Male	Female
<30	3.20	2.32
30-39	1.89	1.52
40-49	1.32	1.18
>50	1.07	1.04

There are no other liability adjustments for judges.

Incidence of Contributions

Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report and the actual payroll payable at the time contributions are made. New entrant normal cost contributions are applied to the funding of new entrant benefits.

MSEP 2000 Election

All regular state employees are assumed to elect MSEP 2000 at retirement. Elected officials, the General Assembly, and uniformed water patrol members hired before July 1, 2000 and administrative law judges hired before April 26, 2005, are assumed to elect MSEP at retirement.

Service Adjustment

It is assumed that each member will be granted one half year of service credit, 2 months for unused leave upon retirement and 4 months for military service purchases.

Forfeitures

For those hired on or after January 1, 2011, 50% of state employees terminating at first vesting eligibility are assumed to take a refund and forfeit their deferred pension. This percentage decreases to 0% at first retirement eligibility.

For judges, vested members are assumed not to take a refund of member contributions and forfeit their benefit upon separation from service.

Active and retired member data was reported as of May 31, 2010. It was brought forward to June 30, 2010, by adding one month of service for all active members and the June COLA for certain retired members. It is expected that this procedure resulted in a slight overstatement of total liabilities as of June 30, 2010. Financial information continues to be reported as of June 30. This procedure was instituted to provide sufficient time for the board of trustees to certify the appropriate contribution rate prior to the October 1 statutory deadline.

SUMMARY OF MEMBER DATA INCLUDED IN VALUATIONS

PENSION TRUST FUNDS – JUNE 30, 2010

Active Members

Valuation Group	Number	Annual Payroll	Group Averages: Salary	Group Averages: Age (Yrs.)	Group Averages: Service (Yrs.)
MSEP					
Regular state employees	49,865	$ 1,747,311,866	$ 35,041	45.4	10.8
Elected officials	6	659,978	109,996	48.8	5.5
Legislative clerks	39	1,278,336	32,778	58.7	20.2
Legislators	196	7,051,594	35,978	51.4	5.8
Uniformed water patrol	93	5,649,221	60,744	41.0	16.0
Conservation department	1,445	60,698,031	42,006	45.0	14.7
School-term salaried employees	1,799	119,014,228	66,156	54.3	19.4
Administrative law judges	35	3,432,067	98,059	54.8	16.6
Total MSEP group	53,478	$ 1,945,095,321	36,372	45.7	11.2
Judicial Plan	402	$ 46,112,730	$ 114,708	56.0	12.2

Retired Members

Type of Benefit Payment	Number	Annual Benefits	Group Averages: Benefit	Group Averages: Age (Yrs.)
MSEP				
Retirement	29,370	$ 454,819,114	$ 15,486	69.2
Disability	10	33,876	3,388	59.5
Survivor of active member	1,413	13,070,507	9,250	60.5
Survivor of retired member	2,458	25,728,736	10,467	74.6
Total MSEP group	33,251	$ 493,652,233	14,846	69.2
Judicial Plan	465	$ 24,538,904	$ 52,772	75.2

Others

Group	Terminated-Vested	Leave of Absence	Long-Term Disability
Missouri State Employees' Plan	17,399	327	964
Judicial Plan	42	0	0

ACTIVE MEMBERS BY ATTAINED AGE AND YEARS OF SERVICE

JUNE 30, 2010

MSEP

Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	No.	Valuation Payroll
	Years of Service to Valuation Date							Totals	
15-19	28							28	$ 564,072
20-24	1,365	5						1,370	34,387,435
25-29	3,634	725	18					4,377	130,569,657
30-34	2,622	2,062	526	11				5,221	170,104,117
35-39	1,926	1,707	1,737	398	14			5,782	199,938,944
40-44	1,646	1,470	1,681	1,262	485	26		6,570	238,151,759
45-49	1,733	1,543	1,551	1,186	1,272	608	62	7,955	297,535,674
50-54	1,485	1,436	1,569	1,104	1,290	962	626	8,472	324,937,357
55-59	1,128	1,251	1,426	1,078	1,215	629	661	7,388	293,421,356
60	185	229	212	205	196	105	83	1,215	47,216,552
61	185	208	225	196	167	87	76	1,144	44,977,419
62	149	200	175	141	137	61	68	931	35,685,473
63	115	178	153	141	106	38	61	792	32,298,346
64	87	128	142	112	74	48	60	651	27,138,413
65	39	87	88	69	54	25	32	394	17,061,148
66	24	55	75	43	47	23	27	294	12,585,428
67	19	56	52	37	26	17	31	238	10,616,021
68	22	44	38	19	18	10	20	171	7,229,686
69	11	16	39	14	21	2	13	116	4,429,750
70 & Over	55	63	77	49	50	23	52	369	16,246,714
Totals	16,458	11,463	9,784	6,065	5,172	2,664	1,872	53,478	$ 1,945,095,321

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Group Averages: Age - 45.7 years • Service - 11.2 years • Annual Pay - $36,372

Judicial Plan

Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	No.	Valuation Payroll
	Years of Service to Valuation Date							Totals	
35-39	8							8	$ 874,932
40-44	12	15	3					30	3,377,646
45-49	14	13	7	3				37	4,225,240
50-54	18	14	28	9	3			72	8,188,854
55-59	19	19	24	33	6	6	3	110	12,660,847
60	7	5	1		1		1	15	1,726,034
61		4	5	5	5	2	2	23	2,656,556
62	3	5	4	6	1	2	1	22	2,525,357
63	4	2	6	5	1	1	1	20	2,326,168
64	4	3	4	4	2	1	2	20	2,285,398
65		2	1	4	1	3	2	13	1,583,772
66	1	1	1	4	4			11	1,225,262
67		1	2	1		1	1	6	689,550
68	1		4	1	1	2		9	1,055,328
69			2	1		1		4	470,818
70			1				1	2	240,968
Totals	91	84	93	76	25	19	14	402	$ 46,112,730

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Group Averages: Age - 56.0 years • Service - 12.2 years • Annual Pay - $114,708

SCHEDULES OF ACTIVE MEMBER VALUATION DATA
LAST SIX YEARS ENDED JUNE 30, 2010

MSEP

Valuation Date	Schedule of Active Member Valuation Data Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2005	55,944	$ 1,806,600,560	$ 32,293	3.92%
June 30, 2006	54,493	1,777,277,138	32,615	1.00
June 30, 2007	54,363	1,846,643,330	33,969	4.15
June 30, 2008	54,542	1,916,527,398	35,139	3.44
June 30, 2009	55,057	2,002,402,087	36,370	3.50
June 30, 2010	53,478	1,945,095,321	36,372	0.01

Judicial Plan

Valuation Date	Schedule of Active Member Valuation Data Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2005	392	$ 40,016,098	$ 102,082	0.09%
June 30, 2006	394	40,270,535	102,209	0.12
June 30, 2007	400	40,846,581	102,116	(0.09)
June 30, 2008	401	44,542,530	111,079	8.78
June 30, 2009	397	45,505,512	114,623	3.19
June 30, 2010	402	46,112,730	114,708	0.07

MSEP – RETIREES AND BENEFICIARIES ADDED AND REMOVED

LAST SIX YEARS ENDED JUNE 30, 2010

			Added to Rolls	
Fiscal Year Ended	Classification	Benefit Type	Number	Annual Allowances
June 30, 2005	General employees	Retirement	1,719	$ 27,796,807
		Survivor of active	78	891,051
		Survivor of retired	206	2,036,085
		Disability	0	1,409
		Occupational disability	0	0
	Lincoln University - vested	Retirement	1	3,086
		Survivor of active	0	0
	Legislators	Retirement	31	606,743
		Survivor of active	2	15,361
		Survivor of retired	3	47,695
	Elected officials	Retirement	2	92,916
		Survivor of active	0	2,562
		Survivor of retired	0	1,089
	ALJs	Retirement	4	203,829
		Survivor of active	0	0
		Survivor of retired	0	4,987
June 30, 2006	General employees	Retirement	1,853	30,323,860
		Survivor of active	76	997,296
		Survivor of retired	214	2,460,805
		Disability	0	1,356
		Occupational disability	0	0
	Lincoln University - vested	Retirement	1	3,535
		Survivor of active	0	0
	Legislators	Retirement	6	141,548
		Survivor of active	0	4,398
		Survivor of retired	5	53,788
	Elected officials	Retirement	1	24,113
		Survivor of active	0	2,664
		Survivor of retired	0	1,132
	ALJs	Retirement	6	219,793
		Survivor of active	0	0
		Survivor of retired	1	30,686
June 30, 2007	General employees	Retirement	2,211	37,839,159
		Survivor of active	89	897,874
		Survivor of retired	213	2,630,107
		Disability	0	1,104
		Occupational disability	0	0
	Lincoln University - vested	Retirement	0	0
		Survivor of active	0	0
	Legislators	Retirement	19	303,741
		Survivor of active	1	8,157
		Survivor of retired	5	95,976
	Elected officials	Retirement	0	0
		Survivor of active	0	2,771
		Survivor of retired	0	1,178
	ALJs	Retirement	0	35,846
		Survivor of active	0	0
		Survivor of retired	0	6,071

Removed from Rolls		Rolls at End of Year				
Number	Annual Allowances	Number	Annual Allowances	Increase (Decrease) in Annual Allowances	Average Annual Allowances	Percentage in Average Annual Allowances
737	$ 6,879,542	22,718	$ 319,029,705	7.02%	$ 14,043	2.39%
47	227,380	1,226	9,366,197	7.63	7,640	4.90
92	632,735	1,780	14,867,117	10.42	8,352	3.35
3	12,123	21	69,348	(13.38)	3,302	(1.01)
1	17,448	0	0	(100.00)	0	(100.00)
0	0	10	46,940	7.04	4,694	(3.67)
0	0	1	2,624	0.00	2,624	0.00
14	274,590	238	4,592,111	7.80	19,295	0.10
0	0	13	138,157	12.51	10,627	(4.80)
1	4,156	44	508,655	9.36	11,560	4.39
0	0	11	453,077	25.80	41,189	2.93
0	0	1	66,610	4.00	66,610	4.00
0	0	1	28,308	4.00	28,308	4.00
0	0	21	940,884	27.65	44,804	3.34
0	0	0	0	0.00	0	0.00
0	0	8	178,335	2.88	22,292	2.88
749	7,656,047	23,822	341,697,518	7.11	14,344	2.14
48	201,958	1,254	10,161,535	8.49	8,103	6.06
80	658,501	1,914	16,669,421	12.12	8,709	4.27
5	13,560	16	57,144	(17.60)	3,572	8.18
0	0	0	0	0.00	0	0.00
0	0	11	50,475	7.53	4,589	(2.24)
0	0	1	2,624	0.00	2,624	0.00
6	124,079	238	4,609,580	0.38	19,368	0.38
0	0	13	142,555	3.18	10,966	3.19
2	39,490	47	522,953	2.81	11,127	(3.75)
0	0	12	477,190	5.32	39,766	(3.45)
0	0	1	69,274	4.00	69,274	4.00
0	0	1	29,440	4.00	29,440	4.00
2	105,777	25	1,054,900	12.12	42,196	(5.82)
0	0	0	0	0.00	0	0.00
0	0	9	209,021	17.21	23,225	4.19
740	8,391,528	25,293	371,145,149	8.62	14,674	2.30
39	281,916	1,304	10,777,493	6.06	8,265	2.00
106	810,074	2,021	18,489,454	10.92	9,149	5.05
4	18,658	12	39,590	(30.72)	3,299	(7.64)
0	0	0	0	0.00	0	0.00
0	0	11	50,475	0.00	4,589	0.00
0	0	1	2,624	0.00	2,624	0.00
7	178,306	250	4,735,015	2.72	18,940	(2.21)
0	0	14	150,712	5.72	10,765	(1.83)
0	0	52	618,929	18.35	11,902	6.97
0	0	12	477,190	0.00	39,766	0.00
0	0	1	72,045	4.00	72,045	4.00
0	0	1	30,618	4.00	30,618	4.00
0	0	25	1,090,746	3.40	43,630	3.40
0	0	0	0	0.00	0	0.00
0	0	9	215,092	2.90	23,899	2.90

Source of Data: MOSERS benefit payment database as of June 30, 2010.
Other *Actuarial Section* information reported based on MOSERS data as of May 31, 2010.

MSEP continued on pages 114-115

MSEP – Retirees and Beneficiaries Added and Removed

Six Years Ended June 30, 2010

Continued from pages 112-113

			Added to Rolls	
Fiscal Year Ended	**Classification**	**Benefit Type**	**Number**	**Annual Allowances**
June 30, 2008	General employees	Retirement	2,159	$ 36,365,696
		Survivor of active	91	971,449
		Survivor of retired	234	2,715,274
		Disability	0	900
		Occupational disability	0	0
	Lincoln University - vested	Retirement	2	5,478
		Survivor of active	0	0
	Legislators	Retirement	9	147,136
		Survivor of active	0	4,489
		Survivor of retired	5	114,053
	Elected officials	Retirement	0	37,804
		Survivor of active	0	2,882
		Survivor of retired	0	1,225
	ALJs	Retirement	2	102,631
		Survivor of active	0	0
		Survivor of retired	1	30,876
June 30, 2009	General employees	Retirement	2,195	37,338,992
		Survivor of active	82	996,258
		Survivor of retired	251	3,077,466
		Disability	0	876
		Occupational disability	0	0
	Lincoln University - vested	Retirement	0	0
		Survivor of active	0	0
	Legislators	Retirement	21	746,414
		Survivor of active	0	5,137
		Survivor of retired	4	84,108
	Elected officials	Retirement	2	105,141
		Survivor of active	0	2,997
		Survivor of retired	0	1,274
	ALJs	Retirement	3	168,517
		Survivor of active	0	0
		Survivor of retired	2	57,238
June 30, 2010	General employees	Retirement	2,298	34,755,192
		Survivor of active	83	1,054,292
		Survivor of retired	246	3,080,424
		Disability	0	830
		Occupational disability	0	0
	Lincoln university - vested	Retirement	1	5,671
		Survivor of active	0	0
	Legislators	Retirement	12	201,562
		Survivor of active	0	3,975
		Survivor of retired	5	78,765
	Elected officials	Retirement	0	0
		Survivor of active	0	3,117
		Survivor of retired	1	34,780
	ALJs	Retirement	3	113,877
		Survivor of active	0	0
		Survivor of retired	0	7,332

Removed from Rolls		Rolls at End of Year				
Number	Annual Allowances	Number	Annual Allowances	Increase (Decrease) in Annual Allowances	Average Annual Allowances	Percentage in Average Annual Allowances
853	$ 9,745,552	26,599	$ 397,765,293	7.17%	$ 14,954	1.91%
59	259,787	1,336	11,489,155	6.60	8,600	4.05
137	916,500	2,118	20,288,228	9.73	9,579	4.70
1	4,074	11	36,416	(8.02)	3,311	0.35
0	0	0	0	0.00	0	0.00
0	0	13	55,953	10.85	4,304	(6.21)
0	0	1	2,624	0.00	2,624	0.00
10	300,216	249	4,581,935	(3.23)	18,401	(2.84)
0	0	14	155,201	2.98	11,086	2.98
3	24,638	54	708,344	14.45	13,117	10.21
0	0	12	514,994	7.92	42,916	7.92
0	0	1	74,927	4.00	74,927	4.00
0	0	1	31,843	4.00	31,843	4.00
2	94,035	25	1,099,342	0.79	43,974	0.79
0	0	0	0	0.00	0	0.00
0	0	10	245,968	14.35	24,597	2.92
852	9,903,887	27,942	425,200,398	6.90	15,217	1.76
54	390,167	1,364	12,095,246	5.28	8,867	3.10
110	827,564	2,259	22,538,130	11.09	9,977	4.15
1	4,237	10	33,055	(9.23)	3,306	(0.15)
0	0	0	0	0.00	0	0.00
0	0	13	55,953	0.00	4,304	0.00
0	0	1	2,624	0.00	2,624	0.00
8	120,396	262	5,207,953	13.66	19,878	8.03
1	14,128	13	146,210	(5.79)	11,247	1.45
2	20,473	56	771,979	8.98	13,785	5.09
0	0	14	620,135	20.42	44,295	3.21
0	0	1	77,924	4.00	77,924	4.00
0	0	1	33,117	4.00	33,117	4.00
2	90,337	26	1,177,522	7.11	45,289	2.99
0	0	0	0	0.00	0	0.00
1	27,354	11	275,852	12.15	25,077	1.95
833	9,979,318	29,407	449,976,272	5.83	15,302	0.56
49	276,401	1,398	12,873,137	6.43	9,208	3.85
117	1,078,265	2,388	24,540,289	8.88	10,277	3.01
1	2,985	9	30,900	(6.52)	3,433	3.84
0	0	0	0	0.00	0	0.00
0	0	14	61,624	10.14	4,402	0.00
0	0	1	2,624	0.00	2,624	0.00
12	239,880	262	5,169,635	(0.74)	19,731	(0.74)
1	16,709	12	133,476	(8.71)	11,123	(1.10)
0	0	61	850,744	10.20	13,947	1.18
1	66,911	13	553,224	(10.79)	42,556	(3.93)
0	0	1	81,041	4.00	81,041	4.00
0	0	2	67,897	105.02	33,949	2.51
1	46,794	28	1,244,605	5.70	44,450	(1.85)
0	0	0	0	0.00	0	0.00
0	0	11	283,184	2.66	25,744	2.66

Source of Data: MOSERS benefit payment database as of June 30, 2010.
Other *Actuarial Section* information reported based on MOSERS data as of May 31, 2010.

JUDICIAL PLAN – RETIREES AND BENEFICIARIES ADDED AND REMOVED

SIX YEARS ENDED JUNE 30, 2010

		Added to Rolls		Removed from Rolls	
Fiscal Year Ended	Benefit Type	Number	Allowances	Number	Allowances
June 30, 2005	Retirement	12	$ 1,159,324	8	$ 402,329
	Survivor of active	0	35,224	1	14,247
	Survivor of retired	6	211,269	6	75,799
	Disability	0	0	0	0
June 30, 2006	Retirement	11	952,792	11	583,695
	Survivor of active	2	89,661	2	33,794
	Survivor of retired	6	219,711	4	79,701
	Disability	1	54,000	0	0
June 30, 2007	Retirement	47	2,802,873	15	967,969
	Survivor of active	1	64,452	2	40,742
	Survivor of retired	13	526,008	4	91,948
	Disability	0	0	1	54,000
June 30, 2008	Retirement	21	1,554,013	17	946,602
	Survivor of active	0	31,650	4	53,658
	Survivor of retired	11	387,194	8	181,387
	Disability	0	0	0	0
June 30, 2009	Retirement	30	1,922,615	15	957,943
	Survivor of active	1	59,484	0	0
	Survivor of retired	9	418,266	2	61,344
	Disability	0	0	0	0
June 30, 2010	Retirement	12	1,137,305	13	750,021
	Survivor of active	0	32,700	2	32,399
	Survivor of retired	11	436,312	5	130,920
	Disability	0	0	0	0

Rolls at End of Year				
Number	Annual Allowances	Percentage Increase (Decrease) in Annual Allowances	Average Annual Allowances	Percentage Increase (Decrease) in Average Annual Allowances
275	$ 15,848,461	5.02%	$ 57,631	3.49%
41	939,372	2.28	22,912	4.78
82	2,003,030	7.25	24,427	7.25
0	0	0.00	0	0.00
275	16,217,558	2.33	58,973	2.33
41	995,239	5.95	24,274	5.94
84	2,143,040	6.99	25,512	4.44
1	54,000	100.00	54,000	100.00
307	18,052,462	11.31	58,803	(0.29)
40	1,018,949	2.38	25,474	4.71
93	2,577,100	20.25	27,711	7.94
0	0	(100.00)	0	(100.00)
311	18,659,873	3.36	60,000	2.00
36	996,941	(2.16)	27,693	8.01
96	2,782,907	7.99	28,989	4.41
0	0	0.00	0	0.00
326	19,624,545	5.17	60,198	0.33
37	1,056,425	5.97	28,552	3.01
103	3,139,829	12.83	30,484	4.90
0	0	0.00	0	0.00
325	20,011,829	1.97	61,575	2.24
35	1,056,726	0.03	30,192	5.43
109	3,445,221	9.73	31,608	3.56
0	0	0.00	0	0.00

Source of Data: MOSERS benefit payment database as of June 30, 2010.
Other *Actuarial Section* information reported based on MOSERS data as of May 31, 2010.

SHORT-TERM SOLVENCY TEST

PENSION TRUST FUNDS – TEN YEARS ENDED JUNE 30, 2010

MSEP

	Actuarial Accrued Liabilities for				Percentage of Actuarial Liabilities Covered by Actuarial Value of Assets Available for:		
Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Actuarial Value of Assets Available for Benefits	(1)	(2)	(3)
2001	$ 0	$ 2,496,277,500	$ 3,568,889,216	$ 5,881,232,850	100.0%	100.0%	94.8%
2002	0	2,716,457,033	3,577,815,242	6,033,133,598	100.0	100.0	92.7
2003	0	3,016,029,050	3,646,262,356	6,057,329,072	100.0	100.0	83.4
2004	0	3,405,053,804	3,824,957,124	6,118,214,495	100.0	100.0	70.9
2005	0	3,629,506,014	3,948,522,003	6,435,344,102	100.0	100.0	71.1
2006	0	3,876,349,145	4,136,856,269	6,836,567,188	100.0	100.0	71.6
2007	0	4,208,621,537	4,291,807,104	7,377,289,283	100.0	100.0	73.8
2008	0	4,408,682,437	4,719,665,033	7,838,495,768	100.0	100.0	72.7
2009	0	4,737,859,976	4,756,946,739	7,876,079,342	100.0	100.0	66.0
2010	0	5,012,677,769	4,840,477,676	7,923,377,393	100.0	100.0	60.1

ALJLAP*

	Actuarial Accrued Liabilities for				Percentage of Actuarial Liabilities Covered by Actuarial Value of Assets Available for:		
Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Actuarial Value of Assets Available for Benefits	(1)	(2)	(3)
2001	$ 0	$ 7,534,368	$ 9,275,594	$ 14,410,199	100.0%	100.0%	74.1%
2002	0	8,268,650	9,906,692	15,172,619	100.0	100.0	69.7
2003	0	9,709,096	10,237,391	15,626,461	100.0	100.0	57.8
2004	0	9,188,086	11,196,127	16,238,804	100.0	100.0	63.0

**Assets and liabilities transferred to the MSEP during FY05*

Judicial Plan

	Actuarial Accrued Liabilities for				Percentage of Actuarial Liabilities Covered by Actuarial Value of Assets Available for:		
Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Actuarial Value of Assets Available for Benefits	(1)	(2)	(3)
2001	$ 0	$ 143,163,718	$ 104,815,186	$ 22,613,050	100.0%	15.8%	0.0%
2002	0	149,135,989	106,979,463	29,651,113	100.0	19.9	0.0
2003	0	157,923,805	109,126,052	34,566,516	100.0	21.9	0.0
2004	0	162,539,486	117,857,978	39,120,142	100.0	24.1	0.0
2005	0	168,703,822	123,600,064	44,223,509	100.0	26.2	0.0
2006	0	171,677,032	137,325,720	51,652,867	100.0	30.1	0.0
2007	0	199,489,503	127,176,870	61,903,516	100.0	31.0	0.0
2008	0	216,369,879	138,426,574	73,194,379	100.0	33.8	0.0
2009	0	231,505,591	137,601,250	81,337,881	100.0	35.1	0.0
2010	0	236,113,077	145,899,696	88,976,738	100.0	37.7	0.0

DERIVATION OF EXPERIENCE GAIN (LOSS)

MSEP

Actual experience will never coincide exactly with assumed experience (except by coincidence). Gains and losses may offset each other over a period of years, but sizeable year-to-year variations from assumed experience are common. Detail on the derivation of the experience gain (loss) is shown below.

	Millions
(1) Unfunded actuarial accrued liability (UAAL) at beginning of year	$1,618.7
(2) Normal cost from last valuation	170.6
(3) Actual employer contributions	254.8
(4) Interest accrual: (1) x .085 + [(2) - (3)] x (.085 ÷ 2)	134.0
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	1,668.5
(6) Change from any changes in benefits, assumptions, or methods	(114.5)
(7) Expected UAAL after changes: (5) + (6)	1,554.0
(8) Actual UAAL at end of year	1,929.8
(9) Gain (loss) (7) - (8)	(375.8)
(10) Gain (loss) as a percent of actuarial accrued liabilities at start of year ($9,494.8)	(4.0)%

Actuarial Gain (Loss) As a % of Beginning Accrued Liabilities

(Valuation Date as of June 30)

2001	(4.4)%
2002	(3.8)
2003	(6.4)
2004	(6.0)
2005	(3.4)
2006	(0.1)
2007	1.0
2008	0.1
2009	(5.2)
2010	(4.0)

Judicial Plan

The actuarial gains or losses realized in the operation of the retirement system provide an experience test. Gains and losses often cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the derivation of the actuarial gain (loss) is shown below, along with a year-by-year comparative schedule.

	Millions
(1) Unfunded actuarial accrued liability (UAAL) at beginning of year	$287.8
(2) Employer normal cost middle of year	9.5
(3) Employer contributions	27.0
(4) Interest	
a. on (1)	24.4
b. on (2)	0.4
c. on (3)	1.1
d. total [a + b - c]	23.7
(5) Expected UAAL end of year before changes	294.0
(6) Change in UAAL end of year	
a. amendments	0.0
b. assumptions and technical corrections	(5.0)
c. methods	0.0
d. total	(5.0)
(7) Expected UAAL after changes: (5) + (6d.)	289.0
(8) Actual UAAL at end of year	293.0
(9) Gain (loss) (7) - (8)	(4.0)
(10) Gain (loss) as a percent of actuarial accrued liabilities at start of year ($369.1)	(1.1)%

Actuarial Gain (Loss) As a % of Beginning Accrued Liabilities

(Valuation Date as of June 30)

2001	(3.2)
2002	(0.2)
2003	(1.6)
2004	(1.0)
2005	(0.1)
2006	(1.1)
2007	(0.6)
2008	(3.0)
2009	(1.8)
2010	(1.1)

Summary of Plan Provisions

COMPARISON OF PLANS FOR GENERAL STATE EMPLOYEES – JUNE 30, 2010

MSEP AND MSEP 2000*

Plan Provision	MSEP	MSEP 2000
Membership eligibility	• Members who work in a position normally requiring at least 1,040 hours of work a year.	• Members hired for the first time on or after July 1, 2000, in a position normally requiring at least 1,040 hours of work a year. • Members who left state employment prior to becoming vested and returned to work on or after July 1, 2000, in a position normally requiring at least 1,040 hours of work a year.
Normal retirement eligibility	• Age 65 and active with 4 years of service, • Age 65 with 5 years of service, • Age 60 with 15 years of service, or • "Rule of 80" - minimum age 48.	• Age 62 with 5 years of service, or • "Rule of 80" - minimum age 48.
Early retirement eligibility	• Age 55 with 10 years of service.	• Age 57 with 5 years of service.
Benefit Life benefit Temporary benefit	 • 1.6% x final average pay (FAP) x service. • Not available.	 • 1.7% x FAP x service. • 0.8% x FAP x service (until age 62 - only if retiring under "Rule of 80").
Vesting	• 5 years of service.	• 5 years of service.
In-service cost-of-living adjustment (COLA)	• COLA given for service beyond age 65. COLA provisions are determined by employment date.	• Not available.
COLA	• If hired before August 28, 1997, annual COLA is equal to 80% of the change in the consumer price index (CPI) with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. • If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.	• Annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.
Survivor benefit Death **before** retirement *Non duty-related death* *Duty-related death*	 • Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children. • Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).	 • Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the members' Life Income Annuity paid to eligible children. • Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).
Optional forms of payment Death **after** retirement	• Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: - Life Income Annuity - Unreduced Joint & 50% Survivor - Joint & 100% Survivor - 60 or 120 Guaranteed Payments - BackDROP	• Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: - Life Income Annuity - Joint & 50% Survivor - Joint & 100% Survivor - 120 or 180 Guaranteed Payments - BackDROP

* *This summary describes the plan provisions of the RSMo, as amended, that governed the programs, which MOSERS administered during the period covered by this report. It does not overrule any applicable statute or administrative rule and, in the event of a conflict, the applicable statute or rule would apply. The MSEP 2000 became effective July 1, 2000.*

Summary of Plan Provisions

COMPARISON OF PLANS FOR UNIFORMED MEMBERS OF THE WATER PATROL – JUNE 30, 2010

MSEP AND MSEP 2000

Plan Provision	MSEP	MSEP 2000
Membership eligibility	• Members who work in a position normally requiring at least 1,040 hours of work a year.	• Members hired for the first time on or after July 1, 2000, in a position normally requiring at least 1,040 hours of work a year. • Members who left state employment prior to becoming vested and returned to work on or after July 1, 2000, in a position normally requiring at least 1,040 hours of work a year.
Normal retirement eligibility	• Age 55 and active with 4 years of service, • Age 55 with 5 years of service, or • "Rule of 80"- minimum age 48.	• Age 62 with 5 years of service, or • "Rule of 80" - minimum age 48.
Early retirement eligibility	• Not available.	• Age 57 with 5 years of service.
Benefit		
Life benefit	• 1.6% x FAP x service increased by 33.3%.	• 1.7% x FAP x service.
Temporary benefit	• Not available.	• 0.8% x FAP x service (until age 62 - only if retiring under "Rule of 80").
Vesting	• 5 years of service.	• 5 years of service.
In-service COLA	• COLA given for service beyond age 65. COLA provisions are determined by employment date.	• Not available.
COLA	• If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. • If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.	• Annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.
Survivor benefit		
Death **before** retirement		
Non duty-related death	• Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children.	• Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children.
Duty-related death	• Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).	• Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).
Optional forms of payment Death **after** retirement	• Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: - Life Income Annuity - Unreduced Joint & 50% Survivor - Joint & 100% Survivor - 60 or 120 Guaranteed Payments - BackDROP	• Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: - Life Income Annuity - Joint & 50% Survivor - Joint & 100% Survivor - 120 or 180 Guaranteed Payments - BackDROP

Summary of Plan Provisions

COMPARISON OF PLANS FOR LEGISLATORS – JUNE 30, 2010

MSEP AND MSEP 2000

Plan Provision	MSEP	MSEP 2000
Membership eligibility	• Elected to the General Assembly.	• Elected to the General Assembly on or after July 1, 2000.
Normal retirement eligibility	• Age 55 with 3 full-biennial assemblies.	• Age 55 with 3 full-biennial assemblies, or • "Rule of 80" - minimum age 50
Early retirement eligibility	• Not available.	• Not available.
Benefit Life benefit Temporary benefit	 • $150 per month per biennial assembly. • Not available.	 • (Monthly base pay ÷ 24) x service capped at 100% of pay. • Not available.
Vesting	• 3 full-biennial assemblies.	• 3 full-biennial assemblies.
In-service COLA	• COLA given for service beyond age 65. COLA provisions are determined by employment date.	• Not available.
COLA	• If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. • If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.	• Benefit adjusted each year based on the percentage increase in the current pay for an active member of the General Assembly.
Survivor benefit Death **before** retirement *Non duty-related death* *Duty-related death*	 • Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children. • Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).	 • Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children. • Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).
Optional forms of payment Death **after** retirement	• Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: - Life Income Annuity - Unreduced Joint & 50% Survivor - Joint & 100% Survivor - 60 or 120 Guaranteed Payments	• Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: - Life Income Annuity - Joint & 50% Survivor - Joint & 100% Survivor - 120 or 180 Guaranteed Payments

Summary of Plan Provisions

COMPARISON OF PLANS FOR ELECTED OFFICIALS – JUNE 30, 2010

MSEP AND MSEP 2000

Plan Provision	MSEP	MSEP 2000
Membership eligibility	• Elected to state office.	• Elected to state office on or after July 1, 2000.
Normal retirement eligibility	• Age 65 with 4 years of service, • Age 60 with 15 years of service, or • "Rule of 80" - minimum age 48.	• Age 55 with 4 years of service, or • "Rule of 80" - minimum age 50.
Early retirement eligibility	• Age 55 with 10 years of service.	• Not available.
Benefit		
Life benefit	• 12 or more years of service - 50% of current pay for highest position held. • Less than 12 years of service - 1.6% x FAP x service.	• (Monthly base pay ÷ 24) x service capped at 12 years or 50% of pay.
Temporary benefit	• Not available.	• Not available.
Vesting	• 4 years of service.	• 4 years of service.
In-service COLA	• COLA provisions determined by amount of service relative to 12 years and date of employment.	• Not available.
COLA	• 12 or more years of service - COLA is equal to the percentage increase in the current pay of an active elected state official in the highest position held. • Less than 12 years of service - If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. - If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.	• Benefit adjusted each year based on the percentage increase in the current pay for an active elected state official in the highest position held.
Survivor benefit		
Death **before** retirement		
Non duty-related death	• Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children.	• Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children.
Duty-related death	• Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).	• Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).
Optional forms of payment Death **after** retirement	• Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: - Life Income Annuity - Unreduced Joint & 50% Survivor - Joint & 100% Survivor - 60 or 120 Guaranteed Payments	• Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: - Life Income Annuity - Joint & 50% Survivor - Joint & 100% Survivor - 120 or 180 Guaranteed Payments

Summary of Plan Provisions

ADMINISTRATIVE LAW JUDGES AND LEGAL ADVISORS PLAN* – JUNE 30, 2010

Plan Provision	Requirement
Membership eligibility	• Administrative law judge or legal advisor in the Division of Workers' Compensation, a member or legal counsel of the Labor and Industrial Relations Commission, chairperson of the State Board of Mediation, or an administrative hearing commissioner hired prior to April 26, 2005.
Normal retirement eligibility	• Age 62 with 12 years of service, • Age 60 with 15 years of service, or • Age 55 with 20 years of service.
Reduced retirement eligibility	• Age 65 with less than 12 years of service with reduced benefit, based upon years of service relative to 12 years.
Benefit	• Normal retirement eligibility - 50% of the average highest 12 consecutive months of salary. • Reduced retirement eligibility - (years of service ÷ 12) x 50% of the average 12 months of salary.
Vesting	• Immediate.
In-service COLA	• Not available.
COLA	• If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. • If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.
Survivor benefit	
Death **before** retirement	• Survivor benefit to eligible spouse equal to 50% of the benefit the member would have received based on service relative to 12 years.
Death **after** retirement	• Survivor benefit to eligible spouse equal to 50% of the member's annuity at the time of death.

* *All new administrative law judges and legal advisors hired on or after April 26, 2005, who were not previously covered by a retirement system under Chapter 287, RSMo, participate in the MSEP, which is covered under Chapter 104, RSMo.*

Summary of Plan Provisions

JUDICIAL PLAN – JUNE 30, 2010

Plan Provision	Requirement
Membership eligibility	• Must be a judge or commissioner of the supreme court or the court of appeals, a judge of the circuit court, probate court, magistrate court, court of common pleas, court of criminal corrections, a justice of the peace, or a commissioner or deputy commissioner of the circuit court appointed after February 29, 1972; a commissioner of the juvenile division of the circuit court appointed pursuant to Section 211.023, RSMo; a commissioner of the drug court pursuant to Section 478.466, RSMo; or a commissioner of the family court.
Normal retirement eligibility	• Age 62 with 12 years of service, • Age 60 with 15 years of service, or • Age 55 with 20 years of service.
Reduced retirement eligibility	• Age 62 with less than 12 years of service or age 60 with less than 15 years of service with a reduced benefit based on years of service relative to 12 or 15 years.
Benefit	• Normal retirement eligibility - 50% of the FAP • Reduced retirement eligibility - If between age 60 and 62 (years of service ÷ 15) x 50% of compensation on the highest court served. - If age 62 (years of service ÷ 12) x 50% of compensation on the highest court served.
Vesting	• Immediate.
In-service COLA	• Judges who are at least age 60 and work beyond the date first eligible for unreduced benefits will receive COLAs for each year worked beyond normal retirement eligibility. COLA provisions are determined by date of employment.
COLA	• If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. • If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.
Survivor benefit	
Death **before** retirement	• Survivor benefit to eligible spouse equal to 50% of the benefit the member would have received based on service to age 70.
Death **after** retirement	• Survivor benefit to eligible spouse equal to 50% of the member's annuity at the time of death.

Summary of Plan Provisions

LIFE INSURANCE PLANS – JUNE 30, 2010

MOSERS administers basic and optional term life insurance plans for eligible state employees and retirees.

Active Members*

Plan Provision	Requirement
• **Basic life insurance** - An amount equal to one times annual salary (with a minimum of $15,000) while actively employed.	• Actively employed in an eligible state position resulting in membership in MOSERS.
• **Duty-related death benefit** - Duty-related death benefit equivalent to two times the annual salary the member was earning at the time of death in addition to the basic life insurance amount of one times annual salary.	• Actively employed in an eligible state position resulting in membership in MOSERS.
• **Optional life insurance** - Additional life insurance may be purchased in a flat amount in multiples of $10,000 not to exceed the maximum (lesser of six times annual salary or $800,000). Spouse coverage may be purchased in multiples of $10,000 up to a maximum of $100,000; however, the amount of spouse coverage cannot exceed the amount of optional life insurance coverage the member has purchased. Coverage for children is available in a flat amount of $10,000 per child.	• Actively employed in an eligible state position resulting in membership in MOSERS.

* *Terminating employees may convert coverage up to the amount they had as an active employee at individual rates.*

Retired Members

Plan Provision	Requirement
• **Basic life insurance at retirement** - $5,000 basic life insurance during retirement.	• Must retire directly from active employment.
• **Optional life insurance at retirement** (MSEP) - An employee may retain up to the lesser of $60,000 or the amount of optional life insurance coverage held at the time of retirement at the group rate and may convert any remaining basic and optional life insurance at individual rates.	• Must retire directly from active employment.
• **Optional life insurance at retirement** (MSEP 2000) - Under "Rule of 80", an employee may retain the current amount of coverage prior to retirement until age 62 at which time coverage is reduced to $60,000, and may convert any remaining basic and optional life insurance at individual rates. Coverage for spouse and/or children ends at member's retirement and may be converted at individual rates.	• Must retire directly from active employment.

Summary of Plan Provisions

LONG-TERM DISABILITY (LTD) PLANS – JUNE 30, 2010

MOSERS administers the LTD Plan for eligible state employees who become disabled during active employment.

Active Members

Classification	Requirement
• **General state employees, legislators, and elected state officials** - Members of MOSERS in a position normally requiring 1,040 hours of work a year are covered under the LTD plan, unless they work for a state agency which has its own LTD plan.	• Eligible participants receive 60% of their compensation minus primary social security, workers' compensation, and employer provided income. Benefits commence after 90 days of disability or after sick leave expires, whichever occurs last. LTD benefits cease upon the earliest of (i) when disability ends, (ii) when the member is first eligible for normal retirement benefits or is receiving early retirement benefits, (iii) when the member returns to work, or (iv) upon a member's death.
• **Water patrol**	• Uniformed members who are eligible for statutory occupational disability receive benefits equal to 50% of compensation with no offset for social security at the time of disability. For nonoccupational disabilities, eligible participants receive the same benefit as general employees.
• **Judges**	• In addition to the disability benefits provided to general employees, judges also receive benefits under the state constitution. Participants receive 50% of salary until the current term expires.

CHANGES IN PLAN PROVISIONS

House Bill 1

In July 2010, House Bill 1 was enacted which created a new tier defined benefit plan for future state employees first hired on or after January 1, 2011. The new tier plan will include all new employees first hired on or after January 1, 2011, as members of the MSEP 2000 (which includes the General Employee Plan, the Legislative Plan, and the Statewide Elected Official Plan) and the Judicial Plan. The tables on the following page illustrate the differences in the current level of benefits afforded to state employees as compared to the new tier defined benefit plan for members of the MSEP 2000 and Judicial Plan hired on or after January 1, 2011.

This legislation will change normal retirement eligibility for most classifications to coincide with the current ultimate minimum eligibility age of 67 for unreduced social security benefits for those born after 1959. "Rule of 80" is increased to a "Rule of 90" and the corresponding minimum eligibility age is increased from age 48 to age 55. The age for early retirement for general employees is increased from age 57 to age 62 (option available with a reduction).

The legislation increases five-year vesting to ten-year vesting for general employees and establishes member contributions for all classifications equivalent to 4% of pay on a pretax basis; 4% interest is paid on member accounts at the end of the fiscal year based on the beginning fiscal year balance. Refunds are payable after 90 days of termination for those qualifying for refunds. Member contributions and interest are fully refundable and portable, including for nonvested employees who terminate and leave state service.

The legislation also eliminates subsidized service purchases for all employee classifications. This includes the elimination of purchases of military and other full-time, nonfederal, governmental service. In addition, the portability provision that was enacted in the MSEP 2000 is eliminated as well as the BackDROP provision that was enacted in 2002.

As it pertains to judges, in addition to the changes outlined elsewhere regarding normal and early retirement eligibility, member contributions, and service purchases, the legislation will eliminate the unreduced Joint and 50% Survivor Option and in-service COLA provisions presently available in the Judicial Plan in order to mirror the changes that were adopted in the MSEP 2000 for the general population. This legislation will also preclude a retired judge under the new tier plan who returns to work in a benefit eligible position covered under the closed plan or year 2000 plan under Chapter 104, RSMo, from receiving an annuity from the judicial plan while simultaneously working in a benefit eligible position. Such a retired judge will, however, be eligible to accrue service under the other plan. This change also mirrors the provisions adopted in the MSEP 2000 covering the general population.

HB 1868

This legislation contains provisions that transfer the powers and duties of the State Water Patrol to the newly established Division of Water Patrol within the State Highway Patrol. As it affects MOSERS, employees who are earning creditable service under the MSEP (closed plan) or the MSEP 2000 must elect, within 90 days of January 1, 2011, to either remain in those plans or to transfer membership and creditable service to the closed plan or the Year 2000 Plan administered by MPERS. In addition, an employee who elects to transfer service must acknowledge and agree that such election is irrevocable and constitutes a waiver to receive retirement, life insurance, disability benefits, and medical benefits except as provided by the system elected by the employee. In the event an employee elects to transfer service, MOSERS is required to transfer to the MoDOT and Patrol Employees' Retirement System by June 30, 2011, an amount actuarially determined to equal the liability (to the extent that liability is funded as of the most recent actuarial valuation) based on the actuarial value of assets, not to exceed 100%.

MSEP 2011 – NEW TIERS FOR FUTURE NEW HIRES EMPLOYED ON OR AFTER JANUARY 1, 2011

General Employee Plan

Plan Provision	Present Benefits	New Tier Benefits
Normal retirement eligibility	• Age 62 with 5 years of service, or • Age 48 "Rule of 80."	**General Employees** • Age 67 with 10 years of service, or • Age 55 "Rule of 90." **Highway Patrol** • Age 60 and active, or • Age 55 with 10 years of service.
Early retirement eligibility	• Age 57 with 5 years of service.	**General Employees** • Age 62 with 10 years of service (with reduction).
Vesting	• 5 years of service.	• 10 years of service.
Member contributions	• None.	• 4% of pay (with interest on refunds).
Purchased service	• Subsidized military and other full-time, nonfederal, governmental service.	• No service purchases.
BackDROP	• Allows an employee to receive a lump sum payment at retirement in exchange for a reduced monthly benefit for life.	• No BackDROP.

Statewide Elected Official Plan

Plan Provision	Present Benefits	New Tier Benefits
Normal retirement eligibility	• Age 55 with 4 years of service, or • Age 50 "Rule of 80."	• Age 62 with 4 years of service, or • Age 55 "Rule of 90."
Member contributions	• No member contributions.	• 4% of pay (with interest on refunds).
Purchased service	• Subsidized military and other full-time, nonfederal, governmental service.	• No subsidized service purchases.

Legislative Plan

Plan Provision	Present Benefits	New Tier Benefits
Normal retirement eligibility	• Age 55 with 3 biennial assemblies • Age 50 "Rule of 80."	• Age 62 with 3 biennial assemblies • Age 55 "Rule of 90."
Member contributions	• No member contributions.	• 4% of pay (with interest on refunds).
Purchased service	• Subsidized military and other full-time, nonfederal, governmental service.	• No subsidized service purchases.

Judicial Plan

Plan Provision	Present Benefits	New Tier Benefits
Normal retirement eligibility	• Age 62 with 12 years of service • Age 60 with 15 years of service, or • Age 55 with 20 years of service.	• Age 67 with 12 years of service, or • Age 62 with 20 years of service.
Early retirement eligibility	• Age 60 with less than 15 years of service, or • Age 62 with greater than 12 years of service.	• Age 67 with less than 12 years of service, or • Age 62 with greater than 20 years of service.
Normal form of payment	• Unreduced 50% Survivor Option.	• Single life (reduced survivor options).
Member contributions	• No member contributions.	• 4% of pay (with interest on refunds).
In-service cola	• Members who work beyond age 60 have increased benefits upon retirement.	• No in-service COLA.
Purchased service	• Subsidized military and other full-time, nonfederal, governmental service.	• No subsidized service purchases.

ACTUARIAL PRESENT VALUES
AS OF JUNE 30, 2010

MSEP

Actuarial Present Value June 30, 2010 for	Actuarial Present Value	Portion Covered by Future Normal Cost Contributions	Actuarial Accrued Liabilities
Active members			
Service retirement benefits based on services rendered before and likely to be rendered after valuation date	$ 4,579,062,984	$ 712,859,880	$ 3,866,203,104
Disability benefits likely to be paid to present active members who become totally and permanently disabled	136,922,340	63,084,920	73,837,420
Survivor benefits likely to be paid to widows and children of present active members who die before retiring	110,732,407	28,553,378	82,179,029
Separation benefits likely to be paid to present active members	474,062,155	225,901,116	248,161,039
Active member totals	$ 5,300,779,886	$ 1,030,399,294	4,270,380,592
Members on leave of absence & LTD			
Service retirement benefits based on service rendered before the valuation date			109,376,026
Terminated-vested members			
Service retirement benefits based on service rendered before the valuation date			460,721,058
Retired lives			5,012,014,253
BackDROP installment payments incurred, but not yet paid			663,516
Total actuarial accrued liability			9,853,155,445
Actuarial value of assets			7,923,377,393
Unfunded actuarial accrued liability			$ 1,929,778,052

Judicial Plan

Actuarial Present Value June 30, 2010 for	Actuarial Present Value	Portion Covered by Future Normal Cost Contributions	Actuarial Accrued Liabilities
Active members			
Service retirement benefits based on services rendered before and likely to be rendered after valuation date	$ 184,184,349	$ 52,983,897	$ 131,200,452
Disability benefits likely to be paid to present active members who become totally and permanently disabled	801,982	787,572	14,410
Survivor benefits likely to be paid to widows and children of present active members who die before retiring	5,462,044	3,055,828	2,406,216
Active member totals	$ 190,448,375	$ 56,827,297	133,621,078
Retired lives			236,113,077
Terminated-vested members			12,278,618
Members on LTD			0
Total actuarial accrued liability			382,012,773
Actuarial value of assets			88,976,738
Unfunded actuarial accrued liability			$ 293,036,035

EXPLORATION

Each day brings new questions, possibilities and innovations that will shape the course of history. The road to future financial security is taking a new direction but the essence of retirement remains the same. MOSERS is focused on embracing new ideas and innovative opportunities that will lead our members down the road to a prosperous tomorrow.

Discover the direction of endless possibilities

STATISTICAL SECTION

SUMMARY

Plan Membership

Membership in the pension trusts administered by MOSERS increased by 179. Active members decreased by 1,574, retired members and their beneficiaries increased by 1,616, and terminated-vested members increased by 137. Membership data for the last ten years ended June 30, 2010, can be found on page 141. Page 144 depicts the location of benefit recipients, showing that the majority remain in the state of Missouri after retirement.

Net Assets vs. Liabilities

The charts on pages 136-139 graphically represent the funding progress of the pension plans for the ten years ended June 30, 2010. The area charts in the middle of the pages show the portion of the pension liabilities that are unfunded compared to the portion covered by assets in the trust funds. The charts on the bottom of the pages illustrate the funded ratio of the plans for the ten years ended June 30, 2010.

The existence of the unfunded actuarial accrued liabilities is not necessarily an indication of financial problems, but the fluctuations are important and must be monitored and controlled.

The remainder of this section contains various statistical and historical data considered useful in evaluating the condition of the plans.

All nonaccounting data is taken from MOSERS' internal sources except for that information which is derived from the actuarial valuations (pages 136-141, 145, and 154-155). Member data may differ between some schedules since the valuations are performed using data as of May 31 each year.

CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS

	FY01	FY02	FY03	FY04
MSEP				
Additions				
Employer contributions	$ 215,750,128	$ 209,515,026	$ 156,576,150	$ 164,691,836
Member service purchases	1,918,572	3,913,426	3,690,820	3,426,367
Service transfers in	167,640	48,840	53,119	166,510
Investment income (net of expenses)	(112,164,123)	(348,106,057)	332,901,027	873,793,645
Other	418,663	447,462	437,574	469,959
Total additions to plan net assets	106,090,880	(134,181,303)	493,658,690	1,042,548,317
Deductions				
Benefits	217,862,853	268,480,982	319,607,447	367,248,099
Refunds	0	0	4,019	8,585
Service transfers out	31,482	27,970	2,191,487	529,177
Administrative expenses	5,749,965	5,753,812	5,954,365	5,694,082
Total deductions from plan net assets	223,644,300	274,262,764	327,757,318	373,479,943
Transfer from ALJLAP plan	0	0	0	0
Change in net assets	$ (117,553,420)	$ (408,444,067)	$ 165,901,372	$ 669,068,374
ALJLAP Plan				
Additions				
Employer contributions	$ 1,074,946	$ 1,072,562	$ 951,023	$ 945,950
Investment income (net of expenses)	(273,380)	(874,249)	862,381	2,344,262
Other	1,020	1,124	1,134	1,261
Total additions to plan net assets	802,586	199,437	1,814,538	3,291,473
Deductions				
Benefits	776,422	836,615	969,918	1,003,355
Administrative expenses	14,015	14,450	15,425	15,276
Total deductions from plan net assets	790,437	851,065	985,343	1,018,631
Transfer to MSEP plan	0	0	0	0
Change in net assets	$ 12,149	$ (651,628)	$ 829,195	$ 2,272,842
Judicial Plan				
Additions				
Employer contributions	$ 22,473,913	$ 22,088,485	$ 20,802,140	$ 20,636,314
Investment income (net of expenses)	(391,124)	(1,680,566)	1,932,815	5,800,076
Other	1,460	2,160	2,541	3,119
Total additions to plan net assets	22,084,249	20,410,079	22,737,496	26,439,509
Deductions				
Benefits	15,010,098	15,943,642	16,870,011	17,658,269
Administrative expenses	20,051	27,778	34,571	37,796
Total deductions from plan net assets	15,030,149	15,971,420	16,904,582	17,696,065
Change in net assets	$ 7,054,100	$ 4,438,659	$ 5,832,914	$ 8,743,444
Internal Service Fund				
Operating revenues				
Premium receipts	$ 23,185,529	$ 24,753,708	$ 25,223,043	$ 25,771,703
Deferred compensation receipts	0	0	0	0
Miscellaneous income	464,351	436,489	436,494	436,489
Total operating revenues	23,649,880	25,190,197	25,659,537	26,208,192
Operating expenses				
Premium disbursements	22,480,704	24,675,520	25,169,883	25,736,083
Deferred compensation disbursements	0	0	0	0
Premium refunds	704,825	78,188	53,160	35,620
Administrative expenses	410,906	439,232	421,507	474,040
Total operating expenses	23,596,435	25,192,940	25,644,550	26,245,743
Nonoperating revenues				
Investment income	81,717	47,767	31,179	24,353
Change in net assets	$ 135,162	$ 45,024	$ 46,166	$ (13,198)

FY05	FY06	FY07	FY08	FY09	FY10
$ 194,524,059	$ 227,233,195	$ 239,488,751	$ 249,770,156	$ 252,105,008	$ 251,226,187
4,122,001	3,072,315	3,460,923	3,085,133	3,235,999	3,576,954
29,397	161,613	172,936	38,069	28,075	10,009
727,341,314	728,526,971	1,283,573,438	108,497,467	(1,508,376,715)	859,898,512
1,231,658	501,512	542,266	572,274	619,060	639,901
927,248,429	959,495,606	1,527,238,314	361,963,099	(1,252,388,573)	1,115,351,563
367,431,297	400,169,563	447,240,771	479,853,891	511,466,555	543,284,289
0	1,341	0	0	0	3,106
199,201	133,866	51,980	251,443	0	462,970
6,228,609	6,486,597	6,689,710	6,950,878	7,088,483	7,064,544
373,859,107	406,791,367	453,982,461	487,056,212	518,555,038	550,814,909
18,157,148	0	0	0	0	0
$ 571,546,470	$ 552,704,239	$1,073,255,853	$ (125,093,113)	$ (1,770,943,611)	$ 564,536,654
$ 1,124,924	$ 0	$ 0	$ 0	$ 0	$ 0
2,057,375	0	0	0	0	0
3,484	0	0	0	0	0
3,185,783	0	0	0	0	0
749,197	0	0	0	0	0
17,618	0	0	0	0	0
766,815	0	0	0	0	0
(18,157,148)	0	0	0	0	0
$ (15,738,180)	$ 0	$ 0	$ 0	$ 0	$ 0
$ 21,852,985	$ 22,401,569	$ 23,745,467	$ 26,215,309	$ 27,725,882	$ 27,029,198
5,409,107	5,933,531	11,356,312	1,043,940	(15,847,382)	9,909,718
9,160	4,085	4,798	5,506	6,504	7,374
27,271,252	28,339,185	35,106,577	27,264,755	11,885,004	36,946,290
18,396,397	19,091,587	20,595,504	22,058,085	23,232,088	24,230,545
46,321	52,830	59,187	66,880	74,473	81,414
18,442,718	19,144,417	20,654,691	22,124,965	23,306,561	24,311,959
$ 8,828,534	$ 9,194,768	$ 14,451,886	$ 5,139,790	$ (11,421,557)	$ 12,634,331
$ 27,305,305	$ 26,415,236	$ 27,101,931	$ 27,957,666	$ 28,990,057	$ 29,098,799
0	0	0	60,393,973	75,661,047	69,143,267
436,489	436,501	436,502	536,493	1,027,380	1,039,369
27,741,794	26,851,737	27,538,433	88,888,132	105,678,484	99,281,435
27,271,948	26,379,919	27,063,815	27,927,265	28,968,981	29,077,825
0	0	0	60,371,802	75,683,218	69,143,267
33,357	35,317	38,116	30,401	21,076	20,974
466,531	487,699	527,040	708,100	819,581	797,020
27,771,836	26,902,935	27,628,971	89,037,568	105,492,856	99,039,086
49,326	85,124	117,729	77,396	20,755	9,816
$ 19,284	$ 33,926	$ 27,191	$ (72,040)	$ 206,383	$ 252,165

DEDUCTIONS FROM NET ASSETS FOR BENEFITS AND REFUNDS BY TYPE
LAST TEN FISCAL YEARS

MSEP

	FY01	FY02	FY03	FY04	FY05
Type of benefit					
Retirement	$ 199,479,082	$ 229,333,190	$ 257,883,204	$ 295,200,937	$ 314,623,851
Survivors	15,184,214	17,482,292	19,689,766	21,930,438	24,251,854
Disability	178,337	145,856	118,279	102,696	82,246
Lump sum	1,886,958	1,893,194	1,384,599	320,267	342,720
BackDROP & service transfers	1,134,262	19,626,450	40,531,599	49,693,761	28,130,626
Total benefits	$ 217,862,853	$ 268,480,982	$ 319,607,447	$ 367,248,099	$ 367,431,297
Refunds	$ 0	$ 0	$ 4,019	$ 8,585	$ 0

	FY06	FY07	FY08	FY09	FY10
Type of benefit					
Retirement	$ 338,449,307	$ 366,185,990	$ 393,328,057	$ 421,847,017	$ 448,880,110
Survivors	26,944,984	29,340,464	31,894,702	34,615,979	37,718,898
Disability	62,324	42,273	36,825	33,812	33,403
Lump Sum	459,398	556,568	454,643	272,189	409,788
BackDROP & service transfers	34,253,550	51,115,476	54,139,664	54,697,557	56,705,060
Total benefits	$ 400,169,563	$ 447,240,771	$ 479,853,891	$ 511,466,554	$ 543,747,259
Refunds	$ 1,341	$ 0	$ 0	$ 0	$ 3,106

ALJLAP*

	FY01	FY02	FY03	FY04	FY05
Type of benefit					
Retirement	$ 629,094	$ 680,391	$ 808,124	$ 840,963	$ 616,370
Survivors	147,328	156,224	161,794	162,392	132,827
Total benefits	$ 776,422	$ 836,615	$ 969,918	$ 1,003,355	$ 749,197

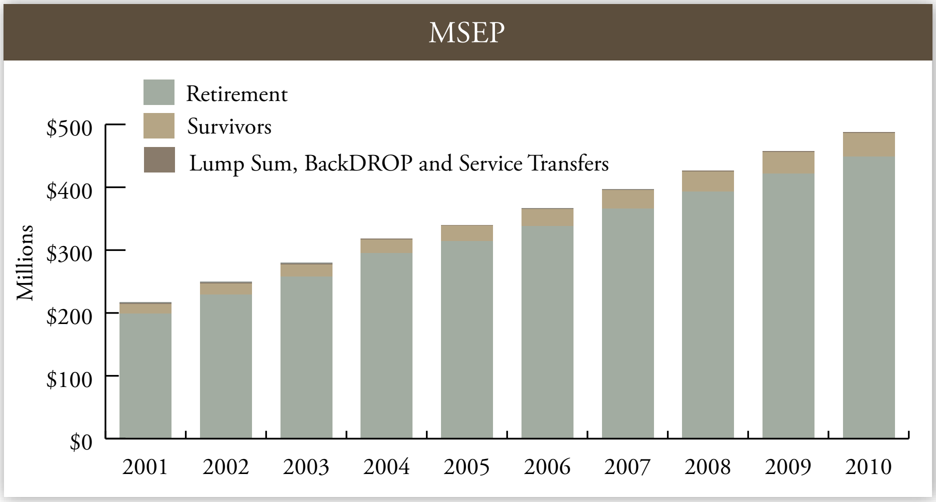
** ALJLAP transitioned to the MSEP in FY05.*

Judicial Plan

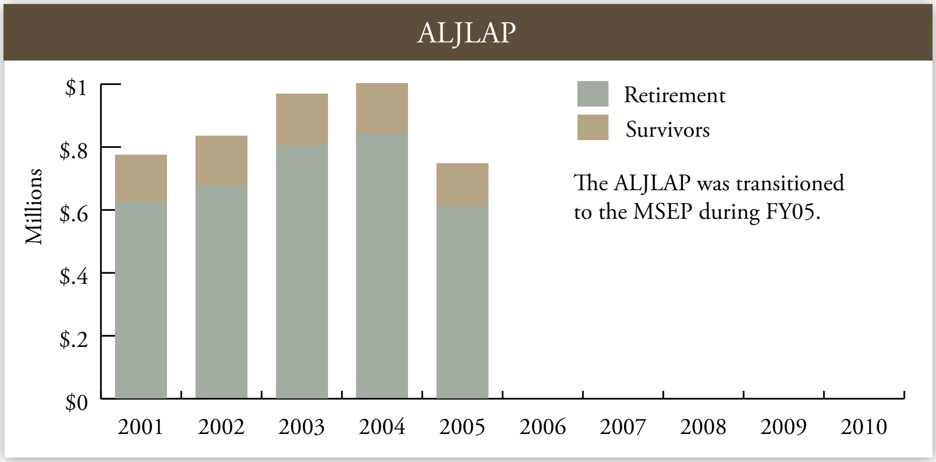
	FY01	FY02	FY03	FY04	FY05
Type of benefit					
Retirement	$ 12,621,473	$ 13,525,249	$ 14,256,361	$ 14,913,678	$ 15,513,182
Survivors	2,340,625	2,379,860	2,613,650	2,744,591	2,883,215
Disability	48,000	38,533	0	0	0
Total benefits	$ 15,010,098	$ 15,943,642	$ 16,870,011	$ 17,658,269	$ 18,396,397

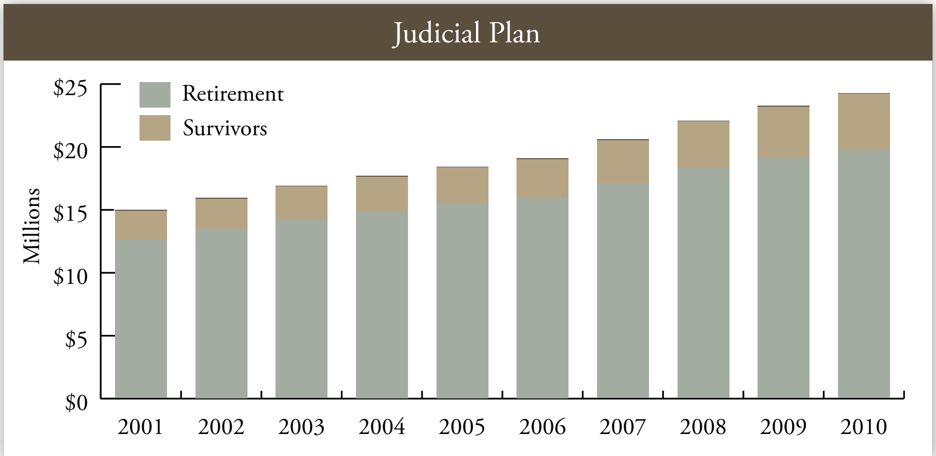
	FY06	FY07	FY08	FY09	FY10
Type of benefit					
Retirement	$ 15,989,341	$ 17,135,426	$ 18,342,676	$ 19,143,753	$ 19,784,720
Survivors	3,070,746	3,433,078	3,715,409	4,088,335	4,445,825
Disability	31,500	27,000	0	0	0
Total benefits	$ 19,091,587	$ 20,595,504	$ 22,058,085	$ 23,232,088	$ 24,230,545

DEDUCTIONS FROM NET ASSETS FOR BENEFITS AND REFUNDS BY TYPE
LAST TEN FISCAL YEARS



Disability benefits are included, but amounts are too minimal to display visually in graph.





Disability benefits are included, but amounts are too minimal to display visually in graph.

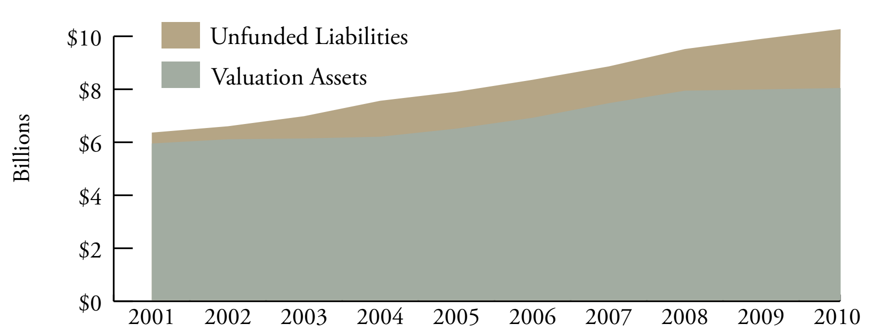
VALUATION ASSETS VS. PENSION LIABILITIES

PENSION TRUST FUNDS – LAST TEN FISCAL YEARS

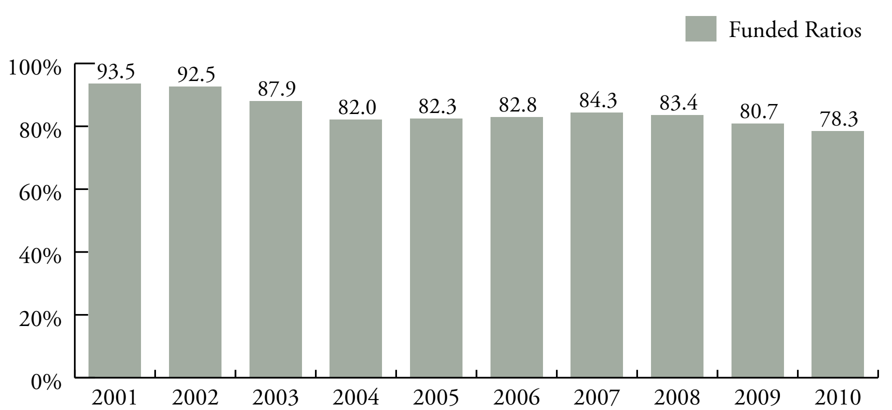
All Plans Combined - Valuation Assets (smoothed market) vs. Pension Liabilities

	Dollars in Billions			
Fiscal Year	Valuation Assets	Unfunded Liabilities	Accrued Liabilities	Funded Ratios
2001	$5.9182	$0.4118	$6.3300	93.5%
2002	6.0780	0.4906	6.5686	92.5
2003	6.1075	0.8417	6.9492	87.9
2004	6.1735	1.3573	7.5308	82.0
2005	6.4795	1.3908	7.8703	82.3
2006	6.8883	1.4339	8.3222	82.8
2007	7.4392	1.3879	8.8271	84.3
2008	7.9117	1.5714	9.4831	83.4
2009	7.9574	1.9065	9.8639	80.7
2010	8.0124	2.2228	10.2352	78.3

All Plans Combined - Actuarial Accrued Liabilities



All Plans Combined - Valuation Assets as Percents of Pension Liabilities



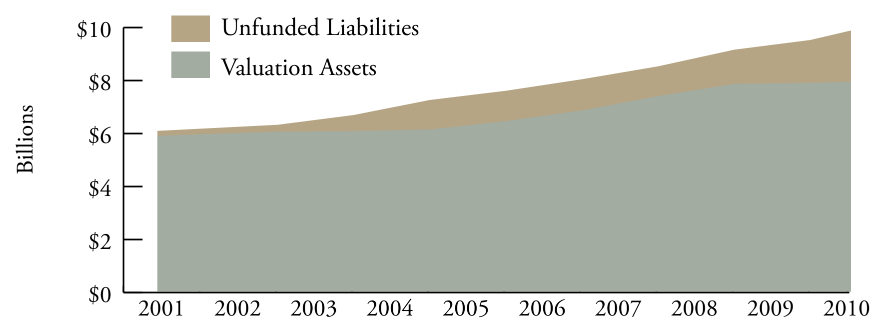
VALUATION ASSETS VS. PENSION LIABILITIES

PENSION TRUST FUNDS – LAST TEN FISCAL YEARS

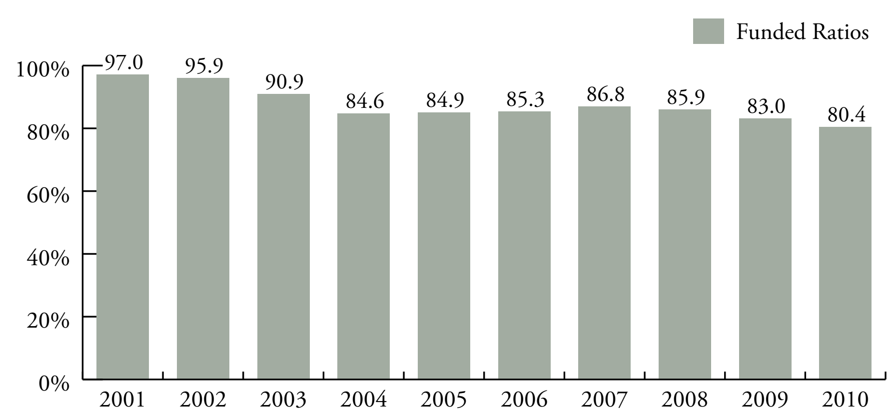
MSEP - Valuation Assets (smoothed market) vs. Pension Liabilities

	Dollars in Billions			
Fiscal Year	Valuation Assets	Unfunded Liabilities	Accrued Liabilities	Funded Ratios
2001	$5.8812	$0.1840	$6.0652	97.0%
2002	6.0331	0.2612	6.2943	95.9
2003	6.0573	0.6050	6.6623	90.9
2004	6.1182	1.1118	7.2300	84.6
2005	6.4353	1.1427	7.5780	84.9
2006	6.8366	1.1766	8.0132	85.3
2007	7.3773	1.1231	8.5004	86.8
2008	7.8385	1.2898	9.1283	85.9
2009	7.8761	1.6187	9.4948	83.0
2010	7.9234	1.9298	9.8532	80.4

MSEP - Actuarial Accrued Liabilities



MSEP - Valuation Assets as Percents of Pension Liabilities



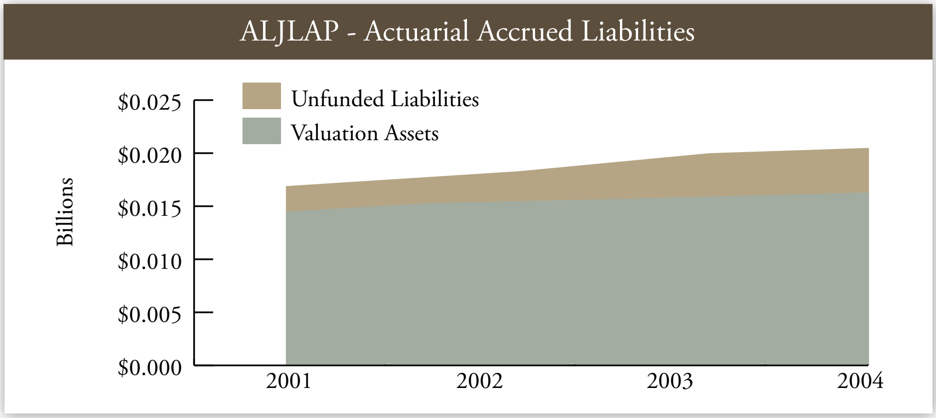
VALUATION ASSETS VS. PENSION LIABILITIES

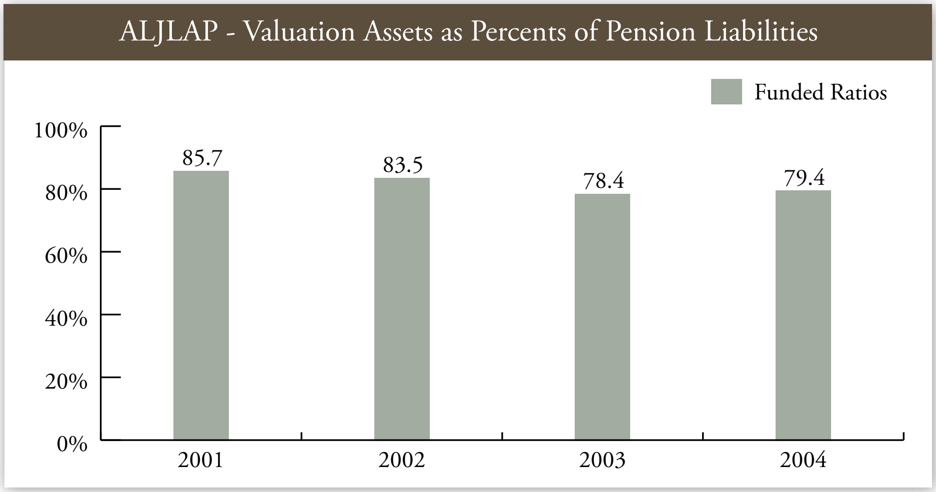
PENSION TRUST FUNDS – LAST TEN FISCAL YEARS

ALJLAP* - Valuation Assets (smoothed market) vs. Pension Liabilities

	Dollars in Billions			
Fiscal Year	Valuation Assets	Unfunded Liabilities	Accrued Liabilities	Funded Ratios
2001	$0.0144	$0.0024	$0.0168	85.7%
2002	0.0152	0.0030	0.0182	83.5
2003	0.0156	0.0043	0.0199	78.4
2004	0.0162	0.0042	0.0204	79.4

** ALJLAP transitioned to the MSEP in FY05.*





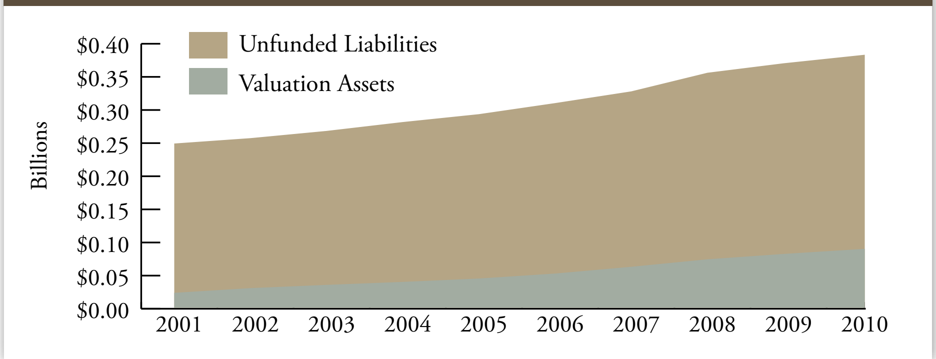
VALUATION ASSETS VS. PENSION LIABILITIES

PENSION TRUST FUNDS – LAST TEN FISCAL YEARS

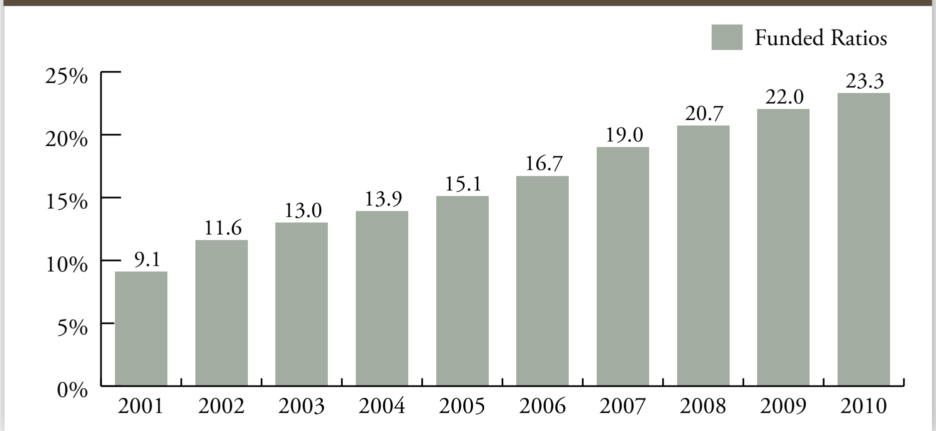
Judicial Plan - Valuation Assets (smoothed market) vs. Pension Liabilities

	Dollars in Billions			
Fiscal Year	Valuation Assets	Unfunded Liabilities	Accrued Liabilities	Funded Ratios
2001	$0.0226	$0.2254	$0.2480	9.1%
2002	0.0297	0.2264	0.2561	11.6
2003	0.0346	0.2324	0.2670	13.0
2004	0.0391	0.2413	0.2804	13.9
2005	0.0442	0.2481	0.2923	15.1
2006	0.0517	0.2573	0.3090	16.7
2007	0.0619	0.2648	0.3267	19.0
2008	0.0732	0.2816	0.3548	20.7
2009	0.0813	0.2878	0.3691	22.0
2010	0.0890	0.2930	0.3820	23.3

Judicial Plan - Actuarial Accrued Liabilities



Judicial Plan - Valuation Assets as Percents of Pension Liabilities

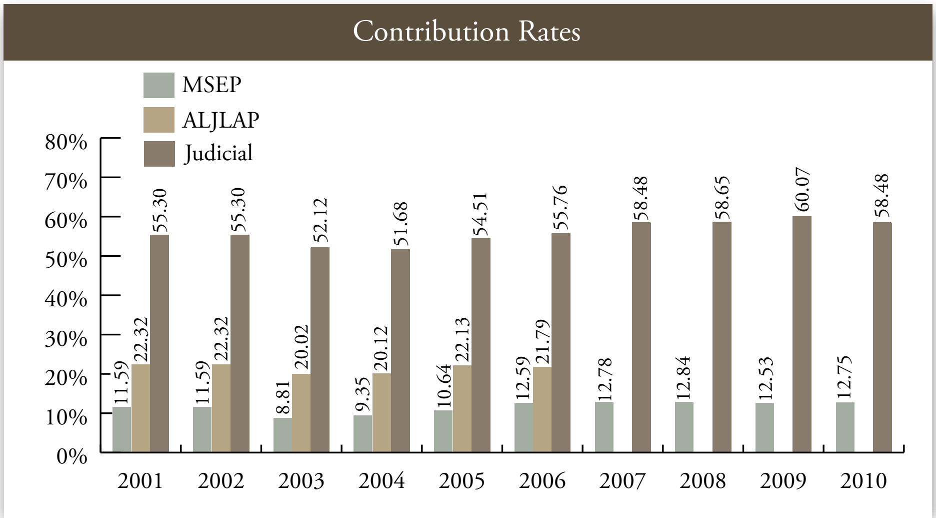


CONTRIBUTION RATES
LAST TEN FISCAL YEARS

Contribution Rates as a Percent of Payroll

Fiscal Year	MSEP	ALJLAP*	Judicial Plan
2001	11.59%	22.32%	55.30%
2002	11.59	22.32	55.30
2003	8.81	20.02	52.12
2004	9.35	20.12	51.68
2005	10.64	22.13	54.51
2006	12.59	21.79	55.76
2007	12.78	0.00	58.48
2008	12.84	0.00	58.65
2009	12.53	0.00	60.07
2010	12.75	0.00	58.48

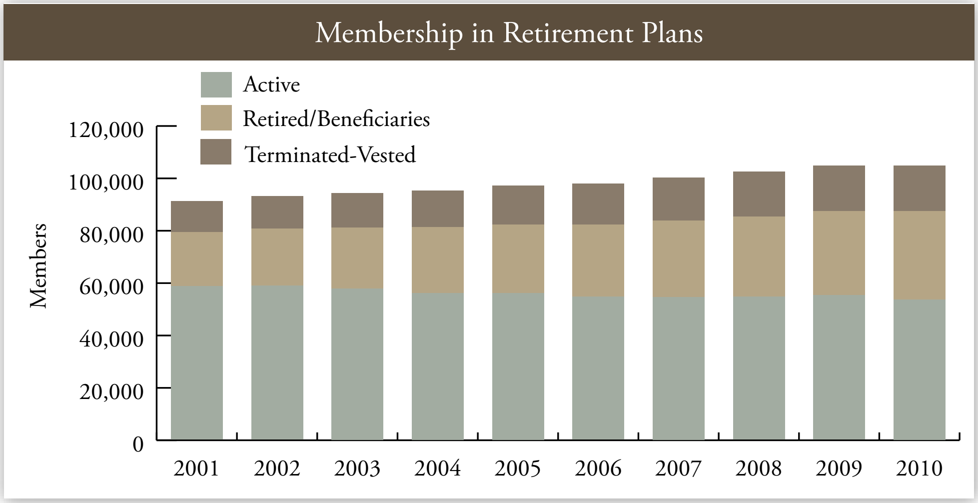
** ALJLAP included in MSEP beginning FY07.*



MEMBERSHIP IN RETIREMENT PLANS
LAST TEN FISCAL YEARS

Membership in Retirement Plans

Fiscal Year	Active	Retired/Beneficiaries	Terminated-Vested	Totals
2001	58,869	20,642	11,837	91,348
2002	59,066	21,910	12,339	93,315
2003	58,007	23,292	13,073	94,372
2004	56,362	25,179	13,898	95,439
2005	56,336	26,177	14,789	97,302
2006	54,887	27,450	15,829	98,166
2007	54,763	29,129	16,578	100,470
2008	54,943	30,572	17,123	102,638
2009	55,454	32,100	17,304	104,858
2010	53,880	33,716	17,441	105,037



BENEFIT RECIPIENTS BY TYPE OF RETIREMENT AND OPTION SELECTED

JUNE 30, 2010

MSEP

Amount of Monthly Benefit	Number of Benefit Recipients	Type of Retirement A	B	C	D	E	F	G
$ 1-250	4,060	1,538	1,733	300	441	4	0	44
251-500	5,766	2,770	2,002	359	583	5	0	47
501-750	4,523	2,871	893	272	461	0	0	26
751-1000	3,696	2,881	369	156	274	0	0	16
1001-1250	2,937	2,481	169	87	193	0	0	7
1251-1500	2,434	2,158	75	77	121	0	0	3
1501-1750	2,006	1,834	33	44	93	0	0	2
1751-2000	1,695	1,574	25	28	66	0	0	2
Over 2000	6,490	6,129	41	89	230	0	0	1
Total	33,607	24,236	5,340	1,412	2,462	9	0	148

Judicial Plan

Amount of Monthly Benefit	Number of Benefit Recipients	Type of Retirement A	B	C	D	E	F	G
$ 1-250	3	0	2	0	1	0	0	0
251-500	11	0	8	0	2	0	0	1
501-750	6	0	2	0	3	0	0	1
751-1000	10	0	2	1	7	0	0	0
1001-1250	6	0	4	1	0	0	0	1
1251-1500	4	0	3	0	1	0	0	0
1501-1750	6	0	3	3	0	0	0	0
1751-2000	12	1	6	0	5	0	0	0
Over 2000	411	255	35	30	90	0	0	1
Total	469	256	65	35	109	0	0	4

Type of Retirement

- A Normal retirement
- B Early retirement
- C Survivor of active
- D Survivor of retired
- E Disability
- F Occupational disability (Water Patrol)
- G Ex-spouse

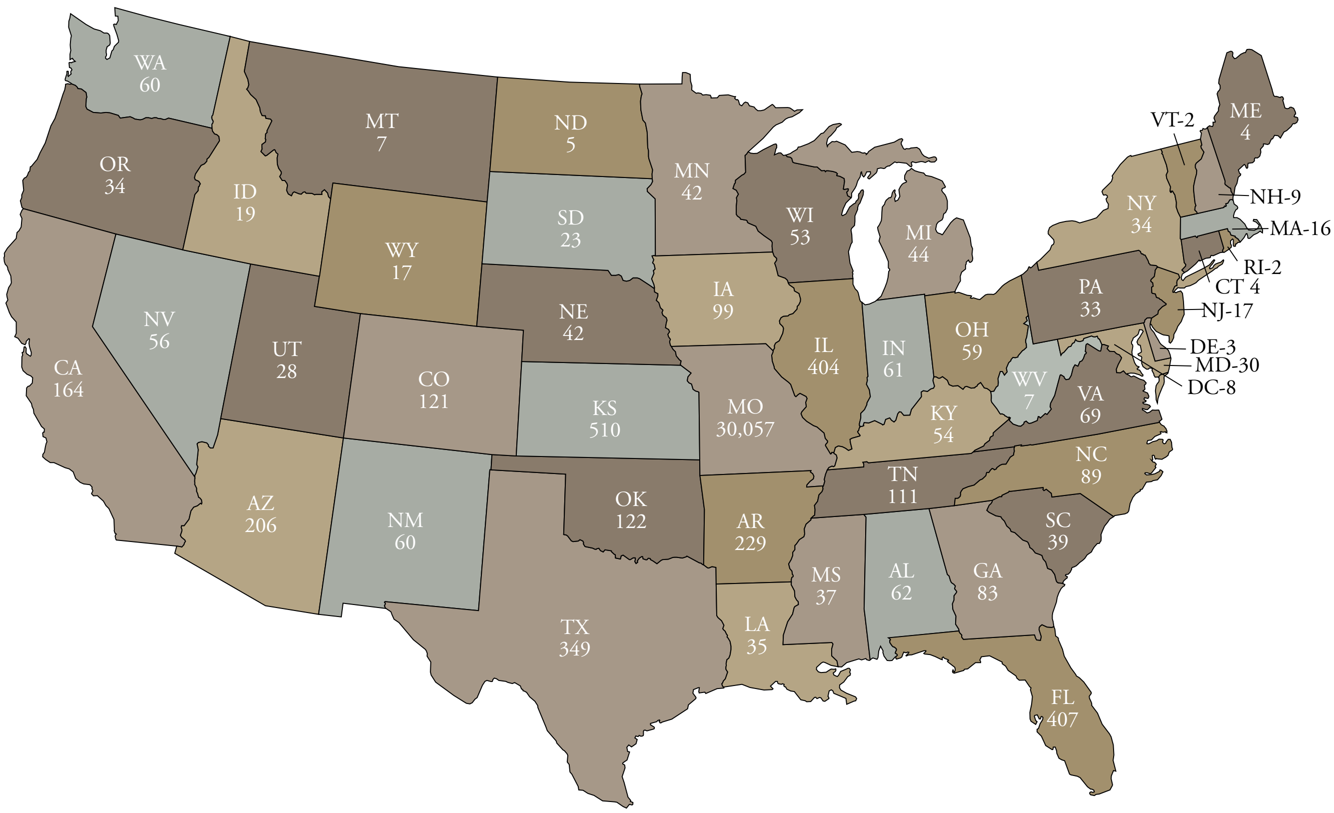
Option Selected									
1	2	3	4	5	6	7	8	9	10
0	19	136	113	209	1	823	564	47	2,148
7	36	153	87	239	5	1,141	1,075	15	3,008
9	33	91	44	179	2	972	1,114	7	2,072
7	19	58	30	245	0	765	871	4	1,697
13	14	46	17	252	3	595	643	0	1,354
11	12	36	18	262	0	478	427	2	1,188
11	7	26	9	260	1	389	314	1	988
10	4	21	14	267	0	354	217	0	808
66	20	75	31	913	2	1,732	913	1	2,737
134	164	642	363	2,826	14	7,249	6,138	77	16,000

Option Selected									
1	2	3	4	5	6	7	8	9	10
3	0	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0	2
3	0	0	0	2	0	0	0	0	1
4	0	0	0	3	0	0	0	0	3
4	0	0	0	0	0	0	0	0	2
4	0	0	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0	0	3
9	0	0	0	2	0	0	0	0	1
372	0	0	0	31	0	0	0	1	7
411	0	0	0	38	0	0	0	1	19

Option Selected
1 Automatic 50% joint & survivor
2 60-month guaranteed
3 120-month guaranteed
4 180-month guaranteed
5 50% joint & survivor
6 75% joint & survivor
7 100% joint & survivor
8 Unreduced 50% joint & survivor
9 Automatic minor survivor
10 No survivor option (includes pop-ups)

DISTRIBUTION OF BENEFIT RECIPIENTS BY LOCATION

JUNE 30, 2010



Benefit Recipients Outside the Continental United States

- 8 - Alaska
- 4 - Hawaii
- 3 - APO
- 1 - Argentina
- 2 - Australia
- 1 - Bermuda
- 7 - Canada
- 1 - Colombia, South America
- 1 - Costa Rica
- 2 - Germany
- 1 - Guam
- 1 - Ireland
- 1 - Israel
- 2 - Italy
- 1 - Mexico
- 1 - P.R. China
- 1 - Panama
- 2 - Philippines
- 1 - Puerto Rico
- 1 - Slovak Republic
- 1 - Sweden
- 1 - Thailand
- 1 - The Netherlands
- 1 - United Arab Emirates
- 3 - United Kingdom
- 1 - Wales UK

BENEFITS PAYABLE JUNE 30, 2010

TABULATED BY OPTION AND TYPE OF BENEFIT

MSEP

Type of Benefit	Number	Annual Benefits	Average Annual Benefits
Service retirement			
Life annuity	4,898	$ 57,079,846	$ 11,654
50% joint and survivor	5,160	80,109,451	15,525
75% joint and survivor	2	41,616	20,808
100% joint and survivor	2,519	46,058,649	18,284
5-year certain and life	121	1,288,563	10,649
10-year certain and life	119	1,129,113	9,488
Survivor beneficiary	2,062	21,860,298	10,602
Total	14,881	207,567,536	13,948
Disability retirement	10	33,876	3,388
Death-in-service	1,354	12,910,655	9,535
Grand totals	16,245	$ 220,512,067	13,574

MSEP 2000

Type of Benefit	Number	Annual Benefits	Average Annual Benefits
Service retirement			
Life annuity	10,674	$ 160,359,447	$ 15,023
50% joint and survivor	2,565	54,386,019	21,203
100% joint and survivor	2,536	45,919,174	18,107
5-year certain and life	39	569,613	14,605
10-year certain and life	427	5,101,557	11,947
15-year certain and life	310	2,776,066	8,955
Survivor beneficiary	396	3,868,438	9,769
Total	16,947	272,980,314	16,108
Death-in-service	59	159,852	2,709
Grand totals	17,006	$ 273,140,166	16,061

Judicial Plan

Type of Benefit	Number	Annual Benefits	Average Annual Benefits
Service retirement			
50% joint and survivor	321	$ 20,021,334	$ 62,372
Survivor beneficiary	109	3,457,090	31,716
Total	430	23,478,424	54,601
Death-in-service	35	1,060,480	30,299
Grand totals	465	$ 24,538,904	52,772

AVERAGE MONTHLY BENEFIT AMOUNTS

TEN YEARS ENDED JUNE 30, 2010

Total MSEP

Members Retiring During Fiscal Year		Years Credited Service by Category <5	5-10	10-15	15-20	20-25	25-30	30+	All Members
2001	Average monthly benefit	$ 255	$ 257	$ 433	$ 685	$ 973	$ 1,397	$ 1,751	$ 1,095
	Average final average salary	$ 2,577	$ 2,100	$ 2,134	$ 2,461	$ 2,528	$ 2,925	$ 3,071	$ 2,656
	Number of retirees	10	345	304	197	244	457	718	2,275
2002	Average monthly benefit	$ 100	$ 260	$ 422	$ 655	$ 1,007	$ 1,455	$ 1,896	$ 987
	Average final average salary	$ 1,385	$ 2,250	$ 2,159	$ 2,442	$ 2,629	$ 3,065	$ 3,345	$ 2,675
	Number of retirees	5	230	265	229	248	357	248	1,582
2003	Average monthly benefit	$ 111	$ 283	$ 509	$ 772	$ 1,061	$ 1,457	$ 1,811	$ 1,061
	Average final average salary	$ 1,533	$ 2,208	$ 2,439	$ 2,641	$ 2,732	$ 3,067	$ 3,269	$ 2,779
	Number of retirees	5	205	247	231	282	441	256	1,667
2004	Average monthly benefit	$ 125	$ 283	$ 420	$ 688	$ 1,036	$ 1,447	$ 1,650	$ 1,008
	Average final average salary	$ 1,837	$ 2,398	$ 2,253	$ 2,559	$ 2,700	$ 3,045	$ 3,033	$ 2,722
	Number of retirees	6	299	292	318	386	593	350	2,244
2005	Average monthly benefit	$ 281	$ 287	$ 468	$ 685	$ 1,185	$ 1,564	$ 1,942	$ 941
	Average final average salary	$ 4,085	$ 2,388	$ 2,278	$ 2,579	$ 3,074	$ 3,342	$ 3,470	$ 2,811
	Number of retirees	4	310	265	278	265	334	129	1,585
2006	Average monthly benefit	$ 426	$ 282	$ 439	$ 703	$ 1,038	$ 1,570	$ 1,856	$ 914
	Average final average salary	$ 3,520	$ 2,433	$ 2,331	$ 2,709	$ 2,751	$ 3,325	$ 3,443	$ 2,792
	Number of retirees	3	342	298	283	290	354	160	1,730
2007	Average monthly benefit	$ 150	$ 275	$ 481	$ 686	$ 1,119	$ 1,562	$ 1,844	$ 945
	Average final average salary	$ 2,613	$ 2,339	$ 2,500	$ 2,628	$ 2,954	$ 3,313	$ 3,385	$ 2,825
	Number of retirees	1	425	318	332	344	441	208	2,069
2008	Average monthly benefit	$ 0	$ 263	$ 462	$ 720	$ 1,096	$ 1,584	$ 2,030	$ 926
	Average final average salary	$ 0	$ 2,342	$ 2,425	$ 2,765	$ 2,918	$ 3,359	$ 3,668	$ 2,835
	Number of retirees	0	408	396	330	358	376	193	2,061
2009	Average monthly benefit	$ 111	$ 290	$ 489	$ 747	$ 1,227	$ 1,633	$ 2,177	$ 973
	Average final average salary	$ 1,596	$ 2,422	$ 2,463	$ 2,851	$ 3,217	$ 3,453	$ 3,966	$ 2,960
	Number of retirees	1	458	387	316	412	385	177	2,136
2010	Average monthly benefit	$ 442	$ 287	$ 488	$ 777	$ 1,186	$ 1,606	$ 2,138	$ 940
	Average final average salary	$ 6,215	$ 2,523	$ 2,535	$ 2,890	$ 3,167	$ 3,455	$ 3,845	$ 2,968
	Number of retirees	2	500	449	351	394	338	222	2,256
Ten Years Ended June 30, 2010									
	Average monthly benefit	$ 214	$ 277	$ 463	$ 714	$ 1,102	$ 1,519	$ 1,861	$ 980
	Average final average salary	$ 2,565	$ 2,358	$ 2,368	$ 2,671	$ 2,894	$ 3,215	$ 3,344	$ 2,806
	Number of retirees	37	3,522	3,221	2,865	3,223	4,076	2,661	19,605

Note: COLA increases and temporary benefits payable under MSEP 2000 until age 62 are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS

TEN YEARS ENDED JUNE 30, 2010

General Employees in the MSEP

Members Retiring During Fiscal Year		<5	5-10	10-15	15-20	20-25	25-30	30+	All Members
		Years Credited Service by Category							
2001	Average monthly benefit	$ 98	$ 241	$ 394	$ 640	$ 965	$ 1,390	$ 1,749	$ 1,084
	Average final average salary	$ 1,624	$ 2,069	$ 2,056	$ 2,407	$ 2,514	$ 2,925	$ 3,069	$ 2,633
	Number of retirees	9	340	299	192	243	454	717	2,254
2002	Average monthly benefit	$ 100	$ 257	$ 410	$ 643	$ 996	$ 1,451	$ 1,890	$ 980
	Average final average salary	$ 1,385	$ 2,247	$ 2,149	$ 2,437	$ 2,609	$ 3,065	$ 3,346	$ 2,669
	Number of retirees	5	229	262	227	247	356	246	1,572
2003	Average monthly benefit	$ 111	$ 246	$ 472	$ 675	$ 1,035	$ 1,453	$ 1,808	$ 1,042
	Average final average salary	$ 1,533	$ 2,168	$ 2,416	$ 2,561	$ 2,727	$ 3,067	$ 3,272	$ 2,766
	Number of retirees	5	195	237	216	277	440	255	1,625
2004	Average monthly benefit	$ 125	$ 272	$ 420	$ 676	$ 1,036	$ 1,446	$ 1,650	$ 1,007
	Average final average salary	$ 1,837	$ 2,386	$ 2,253	$ 2,555	$ 2,700	$ 3,044	$ 3,033	$ 2,721
	Number of retirees	6	293	292	315	386	592	350	2,234
2005	Average monthly benefit	$ 229	$ 263	$ 412	$ 675	$ 1,138	$ 1,564	$ 1,895	$ 918
	Average final average salary	$ 4,449	$ 2,364	$ 2,186	$ 2,574	$ 3,029	$ 3,342	$ 3,491	$ 2,788
	Number of retirees	3	298	258	275	258	334	125	1,551
2006	Average monthly benefit	$ 95	$ 269	$ 428	$ 703	$ 1,038	$ 1,556	$ 1,848	$ 906
	Average final average salary	$ 1,362	$ 2,400	$ 2,324	$ 2,709	$ 2,751	$ 3,302	$ 3,435	$ 2,776
	Number of retirees	2	338	295	283	290	351	159	1,718
2007	Average monthly benefit	$ 0	$ 258	$ 476	$ 679	$ 1,119	$ 1,562	$ 1,836	$ 943
	Average final average salary	$ 0	$ 2,320	$ 2,497	$ 2,626	$ 2,954	$ 3,313	$ 3,387	$ 2,824
	Number of retirees	0	413	316	330	344	441	207	2,051
2008	Average monthly benefit	$ 0	$ 258	$ 449	$ 710	$ 1,096	$ 1,584	$ 2,030	$ 923
	Average final average salary	$ 0	$ 2,336	$ 2,413	$ 2,749	$ 2,918	$ 3,359	$ 3,668	$ 2,831
	Number of retirees	0	404	391	329	358	376	193	2,051
2009	Average monthly benefit	$ 111	$ 265	$ 470	$ 739	$ 1,210	$ 1,631	$ 2,160	$ 962
	Average final average salary	$ 1,596	$ 2,391	$ 2,440	$ 2,850	$ 3,192	$ 3,451	$ 3,944	$ 2,945
	Number of retirees	1	444	383	314	409	384	176	2,111
2010	Average monthly benefit	$ 60	$ 281	$ 475	$ 773	$ 1,179	$ 1,601	$ 2,113	$ 932
	Average final average salary	$ 4,258	$ 2,519	$ 2,519	$ 2,890	$ 3,154	$ 3,456	$ 3,815	$ 2,957
	Number of retirees	1	496	446	350	393	337	220	2,243
Ten Years Ended June 30, 2010									
	Average monthly benefit	$ 117	$ 262	$ 444	$ 697	$ 1,091	$ 1,516	$ 1,852	$ 971
	Average final average salary	$ 1,942	$ 2,339	$ 2,343	$ 2,658	$ 2,882	$ 3,213	$ 3,340	$ 2,795
	Number of retirees	32	3,450	3,179	2,831	3,205	4,065	2,648	19,410

Note: COLA increases and temporary benefits payable under MSEP 2000 until age 62 are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS
TEN YEARS ENDED JUNE 30, 2010

Uniformed Members of the Water Patrol in the MSEP

Members Retiring During Fiscal Year		Years Credited Service by Category <5	5-10	10-15	15-20	20-25	25-30	30+	All Members
2001	Average monthly benefit	$ 0	$ 0	$ 1,664	$ 0	$ 0	$ 1,923	$ 3,236	$ 2,274
	Average final average salary	$ 0	$ 0	$ 5,833	$ 0	$ 0	$ 3,172	$ 4,274	$ 4,426
	Number of retirees	0	0	1	0	0	1	1	3
2002	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,843	$ 1,843
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 3,432	$ 3,432
	Number of retirees	0	0	0	0	0	0	1	1
2003	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2004	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,743	$ 0	$ 1,743
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 3,628	$ 0	$ 3,628
	Number of retirees	0	0	0	0	0	1	0	1
2005	Average monthly benefit	$ 0	$ 0	$ 0	$ 1,267	$ 0	$ 0	$ 0	$ 1,267
	Average final average salary	$ 0	$ 0	$ 0	$ 3,254	$ 0	$ 0	$ 0	$ 3,254
	Number of retirees	0	0	0	1	0	0	0	1
2006	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 2,848	$ 3,090	$ 2,969
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,657	$ 4,710	$ 4,684
	Number of retirees	0	0	0	0	0	1	1	2
2007	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2008	Average monthly benefit	$ 0	$ 0	$ 750	$ 0	$ 0	$ 0	$ 0	$ 750
	Average final average salary	$ 0	$ 0	$ 2,541	$ 0	$ 0	$ 0	$ 0	$ 2,541
	Number of retirees	0	0	1	0	0	0	0	1
2009	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 2,351	$ 5,113	$ 3,732
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,173	$ 7,902	$ 6,037
	Number of retirees	0	0	0	0	0	1	1	2
2010	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,886	$ 4,886
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 7,184	$ 7,184
	Number of retirees	0	0	0	0	0	0	2	2
Ten Years Ended June 30, 2010									
	Average monthly benefit	$ 0	$ 0	$ 1,207	$ 1,267	$ 0	$ 2,216	$ 3,842	$ 2,738
	Average final average salary	$ 0	$ 0	$ 4,187	$ 3,254	$ 0	$ 3,907	$ 5,781	$ 4,765
	Number of retirees	0	0	2	1	0	4	6	13

Note: COLA increases and temporary benefits payable under MSEP 2000 until age 62 are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS

TEN YEARS ENDED JUNE 30, 2010

Legislators in the MSEP

Members Retiring During Fiscal Year		Years Credited Service by Category: <5	5-10	10-15	15-20	20-25	25-30	30+	All Members
2001	Average monthly benefit	$ 0	$ 925	$ 1,302	$ 1,750	$ 0	$ 2,649	$ 0	$ 1,550
	Average final average salary	$ 0	$ 2,993	$ 2,993	$ 2,893	$ 0	$ 2,794	$ 0	$ 2,927
	Number of retirees	0	4	2	4	0	2	0	12
2002	Average monthly benefit	$ 0	$ 871	$ 1,451	$ 2,068	$ 0	$ 2,830	$ 3,365	$ 1,944
	Average final average salary	$ 0	$ 2,993	$ 2,993	$ 2,993	$ 0	$ 2,993	$ 2,993	$ 2,993
	Number of retirees	0	1	3	2	0	1	1	8
2003	Average monthly benefit	$ 0	$ 1,002	$ 1,393	$ 1,816	$ 2,482	$ 3,048	$ 2,700	$ 1,638
	Average final average salary	$ 0	$ 2,993	$ 2,993	$ 2,930	$ 2,993	$ 2,993	$ 2,613	$ 2,964
	Number of retirees	0	10	10	12	5	1	1	39
2004	Average monthly benefit	$ 0	$ 797	$ 0	$ 1,959	$ 0	$ 0	$ 0	$ 1,184
	Average final average salary	$ 0	$ 2,993	$ 0	$ 2,993	$ 0	$ 0	$ 0	$ 2,993
	Number of retirees	0	6	0	3	0	0	0	9
2005	Average monthly benefit	$ 435	$ 889	$ 1,361	$ 1,742	$ 2,409	$ 0	$ 3,411	$ 1,604
	Average final average salary	$ 2,993	$ 2,993	$ 2,993	$ 2,993	$ 2,898	$ 0	$ 2,803	$ 2,951
	Number of retirees	1	12	4	2	4	0	4	27
2006	Average monthly benefit	$ 0	$ 871	$ 1,524	$ 0	$ 0	$ 0	$ 0	$ 1,263
	Average final average salary	$ 0	$ 2,993	$ 2,993	$ 0	$ 0	$ 0	$ 0	$ 2,993
	Number of retirees	0	2	3	0	0	0	0	5
2007	Average monthly benefit	$ 150	$ 852	$ 1,306	$ 1,855	$ 0	$ 0	$ 3,484	$ 1,121
	Average final average salary	$ 2,613	$ 2,993	$ 2,993	$ 2,993	$ 0	$ 0	$ 2,993	$ 2,972
	Number of retirees	1	12	2	2	0	0	1	18
2008	Average monthly benefit	$ 0	$ 816	$ 1,306	$ 0	$ 0	$ 0	$ 0	$ 980
	Average final average salary	$ 0	$ 2,993	$ 2,993	$ 0	$ 0	$ 0	$ 0	$ 2,993
	Number of retirees	0	4	2	0	0	0	0	6
2009	Average monthly benefit	$ 0	$ 910	$ 1,496	$ 2,057	$ 2,395	$ 0	$ 0	$ 1,202
	Average final average salary	$ 0	$ 2,993	$ 2,993	$ 2,993	$ 2,993	$ 0	$ 0	$ 2,993
	Number of retirees	0	13	3	2	1	0	0	19
2010	Average monthly benefit	$ 0	$ 982	$ 1,496	$ 2,245	$ 0	$ 3,242	$ 0	$ 1,559
	Average final average salary	$ 0	$ 2,993	$ 2,993	$ 2,993	$ 0	$ 2,993	$ 0	$ 2,993
	Number of retirees	0	4	1	1	0	1	0	7
Ten Years Ended June 30, 2010									
	Average monthly benefit	$ 293	$ 897	$ 1,404	$ 1,870	$ 2,444	$ 2,884	$ 3,313	$ 1,454
	Average final average salary	$ 2,803	$ 2,993	$ 2,993	$ 2,952	$ 2,955	$ 2,913	$ 2,830	$ 2,970
	Number of retirees	2	68	30	28	10	5	7	150

Note: COLA increases and temporary benefits payable under MSEP 2000 until age 62 are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS

TEN YEARS ENDED JUNE 30, 2010

Elected Officials in the MSEP

Members Retiring During Fiscal Year		<5	5-10	10-15	15-20	20-25	25-30	30+	All Members
		Years Credited Service by Category							
2001	Average monthly benefit	$ 1,668	$ 3,154	$ 4,789	$ 5,004	$ 0	$ 0	$ 0	$ 3,881
	Average final average salary	$ 11,152	$ 8,979	$ 11,152	$ 11,152	$ 0	$ 0	$ 0	$ 10,717
	Number of retirees	1	1	2	1	0	0	0	5
2002	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2003	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2004	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2005	Average monthly benefit	$ 0	$ 0	$ 4,218	$ 0	$ 0	$ 0	$ 0	$ 4,218
	Average final average salary	$ 0	$ 0	$ 10,065	$ 0	$ 0	$ 0	$ 0	$10,065
	Number of retirees	0	0	2	0	0	0	0	2
2006	Average monthly benefit	$ 0	$ 2,009	$ 0	$ 0	$ 0	$ 0	$ 0	$ 2,009
	Average final average salary	$ 0	$ 8,979	$ 0	$ 0	$ 0	$ 0	$ 0	$ 8,979
	Number of retirees	0	1	0	0	0	0	0	1
2007	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2008	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2009	Average monthly benefit	$ 0	$ 3,336	$ 4,852	$ 0	$ 0	$ 0	$ 0	$ 4,094
	Average final average salary	$ 0	$ 8,979	$ 9,703	$ 0	$ 0	$ 0	$ 0	$ 9,341
	Number of retirees	0	1	1	0	0	0	0	2
2010	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
Ten Years Ended June 30, 2010									
	Average monthly benefit	$ 1,668	$ 2,833	$ 4,573	$ 5,004	$ 0	$ 0	$ 0	$ 3,804
	Average final average salary	$ 11,152	$ 8,979	$ 10,427	$ 11,152	$ 0	$ 0	$ 0	$ 10,138
	Number of retirees	1	3	5	1	0	0	0	10

Note: COLA increases are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS

TEN YEARS ENDED JUNE 30, 2010

Administrative Law Judges and Legal Advisors in the MSEP

		Years Credited Service by Category							
Members Retiring During Fiscal Year		<5	5-10	10-15	15-20	20-25	25-30	30+	All Members
2001	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 2,982	$ 0	$ 0	$ 2,982
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 5,965	$ 0	$ 0	$ 5,965
	Number of retirees	0	0	0	0	1	0	0	1
2002	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 3,739	$ 0	$ 0	$ 3,739
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 7,478	$ 0	$ 0	$ 7,478
	Number of retirees	0	0	0	0	1	0	0	1
2003	Average monthly benefit	$ 0	$ 0	$ 0	$ 3,615	$ 0	$ 0	$ 0	$ 3,615
	Average final average salary	$ 0	$ 0	$ 0	$ 7,231	$ 0	$ 0	$ 0	$ 7,231
	Number of retirees	0	0	0	3	0	0	0	3
2004	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2005	Average monthly benefit	$ 0	$ 0	$ 3,750	$ 0	$ 3,584	$ 0	$ 0	$ 3,626
	Average final average salary	$ 0	$ 0	$ 7,500	$ 0	$ 7,169	$ 0	$ 0	$ 7,251
	Number of retirees	0	0	1	0	3	0	0	4
2006	Average monthly benefit	$ 1,088	$ 1,669	$ 0	$ 0	$ 0	$ 3,333	$ 0	$ 2,356
	Average final average salary	$ 7,836	$ 5,933	$ 0	$ 0	$ 0	$ 6,667	$ 0	$ 6,776
	Number of retirees	1	1	0	0	0	2	0	4
2007	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2008	Average monthly benefit	$ 0	$ 0	$ 2,040	$ 3,968	$ 0	$ 0	$ 0	$ 2,683
	Average final average salary	$ 0	$ 0	$ 4,081	$ 7,936	$ 0	$ 0	$ 0	$ 5,366
	Number of retirees	0	0	2	1	0	0	0	3
2009	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 4,200	$ 0	$ 0	$ 4,200
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 8,400	$ 0	$ 0	$ 8,400
	Number of retirees	0	0	0	0	2	0	0	2
2010	Average monthly benefit	$ 823	$ 0	$ 2,827	$ 0	$ 4,101	$ 0	$ 0	$ 2,645
	Average final average salary	$ 8,172	$ 0	$ 5,851	$ 0	$ 8,202	$ 0	$ 0	$ 7,019
	Number of retirees	1	0	2	0	1	0	0	4
Ten Years Ended June 30, 2010									
	Average monthly benefit	$ 956	$ 1,669	$ 2,697	$ 3,703	$ 3,747	$ 3,333	$ 0	$ 3,115
	Average final average salary	$ 8,004	$ 5,933	$ 5,473	$ 7,407	$ 7,494	$ 6,667	$ 0	$ 6,919
	Number of retirees	2	1	5	4	8	2	0	22

Note: COLA increases are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS

TEN YEARS ENDED JUNE 30, 2010

Judicial Plan

Members Retiring During Fiscal Year		<5	5-10	10-15	15-20	20-25	25-30	30+	All Members
		Years Credited Service by Category							
2001	Average monthly benefit	$ 0	$ 2,378	$ 4,026	$ 3,849	$ 4,500	$ 4,573	$ 4,250	$ 4,200
	Average final average salary	$ 0	$ 8,000	$ 8,199	$ 7,698	$ 9,000	$ 9,146	$ 8,500	$ 8,593
	Number of retirees	0	1	3	3	6	4	2	19
2002	Average monthly benefit	$ 0	$ 1,337	$ 3,606	$ 4,093	$ 4,000	$ 4,576	$ 0	$ 3,877
	Average final average salary	$ 0	$ 6,095	$ 7,405	$ 8,186	$ 8,000	$ 9,153	$ 0	$ 8,101
	Number of retirees	0	1	2	4	1	3	0	11
2003	Average monthly benefit	$ 756	$ 1,946	$ 4,042	$ 3,849	$ 4,000	$ 4,500	$ 4,250	$ 3,379
	Average final average salary	$ 8,000	$ 6,317	$ 8,333	$ 7,697	$ 8,000	$ 9,000	$ 8,500	$ 7,807
	Number of retirees	2	3	3	6	3	1	2	20
2004	Average monthly benefit	$ 855	$ 3,028	$ 4,500	$ 4,061	$ 4,597	$ 0	$ 4,500	$ 3,952
	Average final average salary	$ 5,129	$ 8,000	$ 9,000	$ 8,121	$ 9,194	$ 0	$ 9,000	$ 8,350
	Number of retirees	1	1	2	4	3	0	1	12
2005	Average monthly benefit	$ 0	$ 0	$ 3,935	$ 4,500	$ 4,142	$ 4,300	$ 4,396	$ 4,216
	Average final average salary	$ 0	$ 0	$ 8,423	$ 9,000	$ 8,284	$ 8,600	$ 8,792	$ 8,550
	Number of retirees	0	0	3	1	3	5	2	14
2006	Average monthly benefit	$ 592	$ 1,946	$ 4,500	$ 4,000	$ 0	$ 4,396	$ 0	$ 2,930
	Average final average salary	$ 5,875	$ 6,564	$ 9,000	$ 8,000	$ 0	$ 8,792	$ 0	$ 7,496
	Number of retirees	2	2	1	2	0	2	0	9
2007	Average monthly benefit	$ 207	$ 2,121	$ 3,995	$ 4,260	$ 4,357	$ 4,071	$ 4,250	$ 3,798
	Average final average salary	$ 5,875	$ 7,889	$ 7,990	$ 8,521	$ 8,714	$ 8,143	$ 8,500	$ 8,244
	Number of retirees	2	5	5	15	7	7	4	45
2008	Average monthly benefit	$ 592	$ 2,045	$ 4,120	$ 4,828	$ 5,132	$ 4,593	$ 5,186	$ 3,908
	Average final average salary	$ 5,821	$ 6,203	$ 8,276	$ 9,656	$ 10,264	$ 9,186	$ 10,373	$ 8,537
	Number of retirees	2	2	6	3	3	2	1	19
2009	Average monthly benefit	$ 524	$ 1,786	$ 3,663	$ 4,616	$ 5,286	$ 5,127	$ 5,020	$ 3,440
	Average final average salary	$ 6,103	$ 7,469	$ 7,811	$ 9,181	$ 10,572	$ 10,255	$ 10,040	$ 8,351
	Number of retirees	6	2	7	6	3	3	1	28
2010	Average monthly benefit	$ 458	$ 1,333	$ 4,507	$ 3,802	$ 0	$ 5,181	$ 4,973	$ 3,972
	Average final average salary	$ 6,597	$ 8,000	$ 9,577	$ 7,604	$ 0	$ 10,362	$ 9,946	$ 9,047
	Number of retirees	1	1	2	2	0	2	3	11
Ten Years Ended June 30, 2010									
	Average monthly benefit	$ 547	$ 2,004	$ 4,002	$ 4,205	$ 4,516	$ 4,491	$ 4,526	$ 3,766
	Average final average salary	$ 6,218	$ 7,165	$ 8,239	$ 8,404	$ 9,032	$ 8,982	$ 9,052	$ 8,311
	Number of retirees	16	18	34	46	29	29	16	188

Note: COLA increases are excluded from the above for comparison purposes.

RETIREES AND BENEFICIARIES

TABULATED BY FISCAL YEAR OF RETIREMENT

MSEP

Fiscal Year of Retirement	Number	Annual Annual Benefit	Average Monthly Benefit
1972 & prior	5	$ 28,327	$ 472
1973	8	51,826	540
1974	7	50,224	598
1975	13	78,403	503
1976	32	207,267	540
1977	37	287,816	648
1978	50	333,446	556
1979	45	334,997	620
1980	50	435,936	727
1981	82	730,296	742
1982	120	1,141,543	793
1983	142	1,504,080	883
1984	171	1,467,816	715
1985	181	1,938,589	893
1986	249	2,172,700	727
1987	287	2,985,337	867
1988	355	4,442,207	1,043
1989	407	5,549,099	1,136
1990	404	5,375,149	1,109
1991	545	8,461,782	1,294
1992	583	8,537,073	1,220
1993	680	9,766,726	1,197
1994	679	9,871,774	1,212
1995	887	13,647,388	1,282
1996	896	14,203,054	1,321
1997	909	14,705,999	1,348
1998	1,100	17,388,526	1,317
1999	1,186	19,082,477	1,341
2000	1,277	20,825,252	1,359
2001	2,477	41,315,011	1,390
2002	1,811	27,072,309	1,246
2003	1,883	30,196,611	1,336
2004	2,466	39,692,946	1,341
2005	1,829	26,172,754	1,192
2006	1,993	28,150,504	1,177
2007	2,354	34,055,343	1,206
2008	2,365	32,965,039	1,162
2009	2,476	35,375,292	1,191
2010	2,566	35,267,728	1,145
	33,607	$495,868,646	1,230

Judicial Plan

Fiscal Year of Retirement	Number	Annual Annual Benefit	Average Monthly Benefit
1976 & prior	1	$ 10,260	$ 855
1978	1	14,721	1,227
1980	1	20,074	1,673
1981	2	121,477	5,062
1982	1	11,598	967
1983	1	19,717	1,643
1984	1	20,957	1,746
1985	3	151,780	4,216
1986	5	185,238	3,087
1987	16	765,175	3,985
1988	7	334,323	3,980
1989	9	491,508	4,551
1990	6	312,755	4,344
1991	18	952,015	4,407
1992	7	356,231	4,241
1993	8	350,812	3,654
1994	8	336,402	3,504
1995	20	1,283,406	5,348
1996	11	528,874	4,007
1997	6	320,878	4,457
1998	25	1,524,989	5,083
1999	23	1,282,794	4,648
2000	26	1,500,577	4,810
2001	20	1,532,987	6,387
2002	15	887,932	4,933
2003	24	1,290,959	4,482
2004	18	1,043,269	4,830
2005	20	1,129,018	4,704
2006	17	647,421	3,174
2007	61	3,028,291	4,137
2008	32	1,483,036	3,862
2009	39	1,745,493	3,730
2010	17	828,809	4,063
	469	$24,513,776	4,356

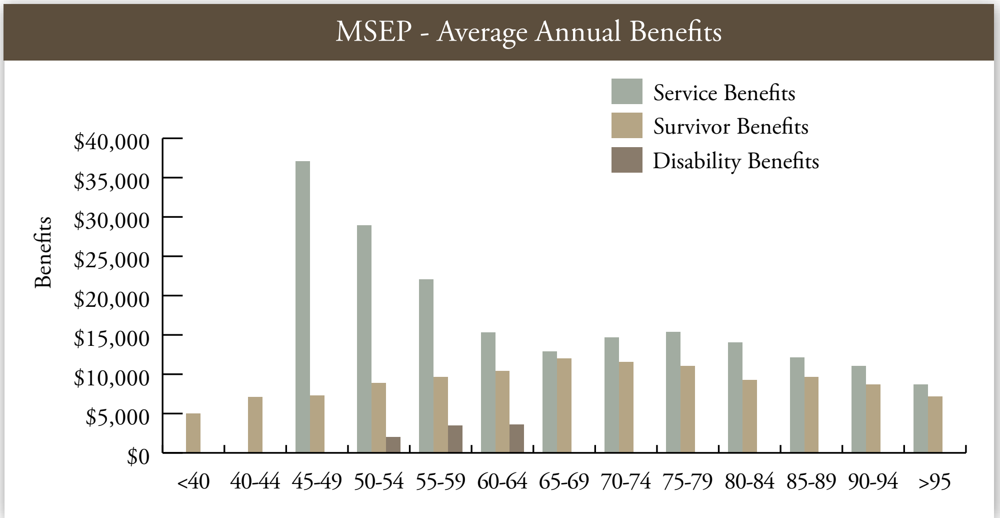
TOTAL BENEFITS PAYABLE

TABULATED BY ATTAINED AGES OF BENEFIT RECIPIENTS
AS OF JUNE 30, 2010

MSEP

	Service Retirement		Disability Retirement		Survivors and Beneficiaries		Totals	
Attained Ages	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits
Under 20					69	$ 282,372	69	$ 282,372
20-24					24	89,137	24	89,137
25-29					8	46,548	8	46,548
30-34					25	193,992	25	193,992
35-39					37	199,643	37	199,643
40-44					71	501,805	71	501,805
45-49	5	$ 185,484			110	799,628	115	985,112
50-54	596	17,248,287	1	$ 2,016	196	1,736,156	793	18,986,459
55-59	3,616	79,801,352	4	13,788	311	3,002,352	3,931	82,817,492
60-64	7,005	107,396,834	5	18,072	447	4,644,835	7,457	112,059,741
65-69	6,312	81,375,201			454	5,431,495	6,766	86,806,696
70-74	4,555	66,683,976			506	5,838,391	5,061	72,522,367
75-79	3,240	49,687,956			610	6,740,957	3,850	56,428,913
80-84	2,241	31,484,720			548	5,085,553	2,789	36,570,273
85-89	1,217	14,778,430			317	3,049,897	1,534	17,828,327
90-94	471	5,203,196			112	970,903	583	6,174,099
95	39	342,305			13	107,664	52	449,969
96	30	291,537			6	21,672	36	313,209
97	13	121,935			3	45,660	16	167,595
98	15	98,880			2	5,587	17	104,467
99	6	47,237					6	47,237
100	3	32,892			1	2,424	4	35,316
101	5	29,880					5	29,880
102					1	2,572	1	2,572
103	1	9,012					1	9,012
Totals	29,370	$ 454,819,114	10	$ 33,876	3,871	$ 38,799,243	33,251	$ 493,652,233

Average age at retirement 60.2 years
Average age now 69.2 years

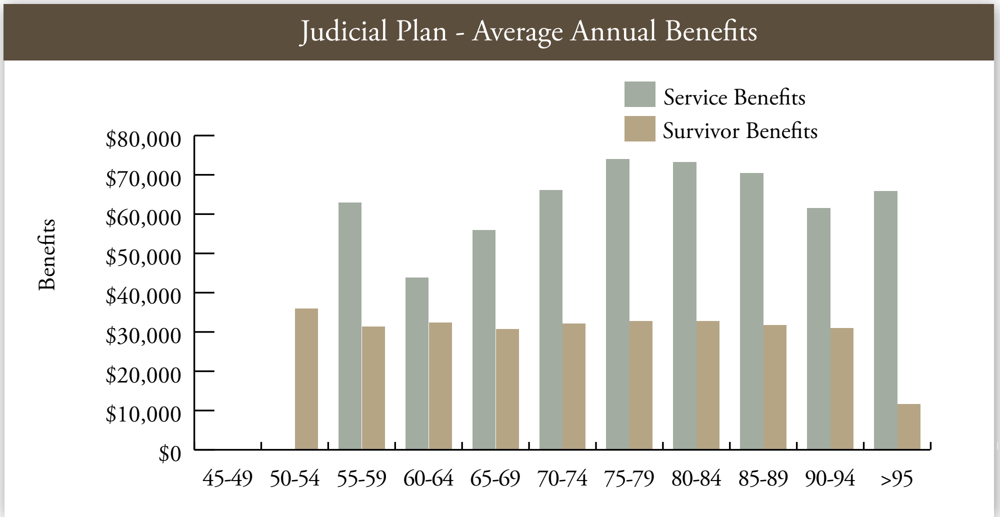


TOTAL BENEFITS PAYABLE
TABULATED BY ATTAINED AGES OF BENEFIT RECIPIENTS
AS OF JUNE 30, 2010

Judicial Plan

	Service Retirement		Survivors and Beneficiaries		Totals	
Attained Ages	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits
50-54			3	$ 107,808	3	$ 107,808
55-59	11	$ 692,484	5	156,903	16	849,387
60-64	58	2,542,980	8	259,221	66	2,802,201
65-69	62	3,464,283	16	491,872	78	3,956,155
70-74	63	4,159,141	10	321,282	73	4,480,423
75-79	51	3,770,364	18	558,154	69	4,328,518
80-84	38	2,779,830	36	1,176,660	74	3,956,490
85-89	29	2,041,915	25	792,579	54	2,834,494
90-94	5	307,176	20	618,340	25	925,516
95 and over	4	263,160	3	34,752	7	297,912
Totals	321	$ 20,021,333	144	$ 4,547,571	465	$ 24,538,904

Average age at retirement 65.3 years
Average age now 75.2 years



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